

GET FIT UGANDA



ANNUAL REPORT 2013

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Abbreviations / Acronyms

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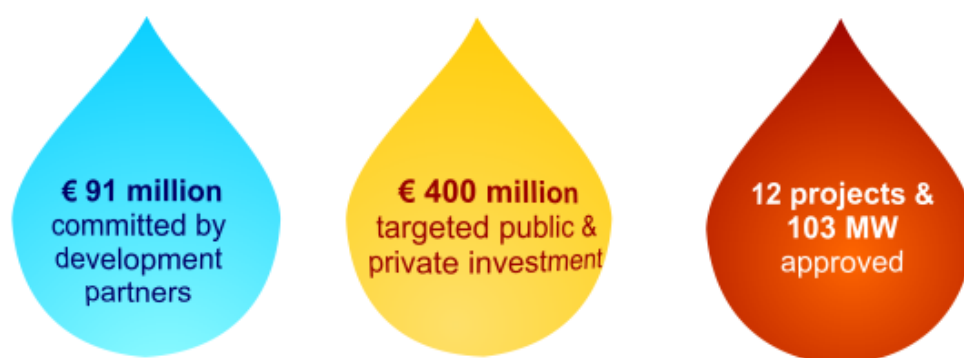
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EXECUTIVE SUMMARY

The GET FiT Uganda Program was formally launched in May 2013. The Program is designed so as to simultaneously target the key barriers confronting investors looking at potential investments in small renewable projects (1-20MW) in Uganda and thereby fast-track some 15-20 projects, 170MW and 830GWh/year. The main feature of the Program is a front-loaded results-based premium payment designed to top-up Uganda's own REFiT and be paid out over the first five years of operation.

Additionally, the Program is designed to contribute to installation of 20MW of grid connected solar PV, resulting from a reverse auction with a GET FiT top-up; improvements to the enabling environment, for example standardized PPA and IA for small renewables; parallel implementation of a World Bank GET FiT Partial Risk Guarantee (PRG) providing coverage for up to MUSD 160 for small renewables; actively facilitating and promoting commercial investments in the sector, and lifting the capacity and competence of ERA through targeted TA Programs.

The initiative is being spearheaded and implemented by ERA, the Government of Uganda and KfW, with funding contributions from the Governments of Norway, Germany, UK and the European Union (EU).



During 2013/14 (April 1st-March 31st), the GET FiT Program has made considerable progress in building its pipeline of projects. After successful completion of two Request for Proposal, the approved portfolio now stands at 12 projects, representing 103 MW and about 600 GWh of annual generation. This is generally in line with expectations and consistent with an intention of three RFP rounds and a solar PV tender targeting 20 MW , in order to achieve the overall target of 170 MW and 830 GWh/year. The current portfolio would imply nearly MUSD 330 in investment and MUSD 60 in approved GFPPM commitments, which would be consistent with a targeted 1:5 leverage ratio, even with a payments-on-results design (rather than capital grants). The results of the two first RFPs and reactions from the market indicate that the GET FiT Program is well targeted to address the critical barriers confronted by small renewable energy developers in Uganda.

The Program design and institutional set-up is well established in the sector, having a clear and well respected role among the relevant stakeholders, particularly investors. Key milestones regarding Program set-up have included: two successful tender rounds and a promising pipeline for the final RFP; award and mobilization of the Implementation Consultant (Multiconsult|Norplan); development of a monitoring and evaluation (M&E) framework and baseline (IMC Worldwide); GoU approval of the small-scale renewables standardized PPA and IA; approval of the World Bank IDA PRG Program; successful launch of Uganda's first solar PV tender, facilitated by the Solar Tender Agent (AGUT EAS; several TA assignments for ERA procured and initiated; a well-attended and engaging Commercial Bank Round-table to promote private investment in renewables in Uganda; and; 40,000 hits on the GET FiT Homepage.

Thanks to Development Partners' commitments, the Program is now fully funded and well placed to achieve on the key output targets. The soon finalized M&E system will enable tracking of other key target outputs and outcomes and allow for a comprehensive evaluation of the Program's approach.



However, results will not be achieved due to funding commitments alone. The results-based nature of the Program implies that the success depends on the performance of individual projects and developers. This leads to uncertainty and risks, particularly regarding the wide range of potential sources of delay for individual projects in the portfolio. While it is notable that none of the hydropower projects have started construction, it is expected that several will do so within the 2014 calendar year. The main focus of KfW and the GET FiT Secretariat for the year to come will be to ensure progress for the project portfolio, but this will also depend upon the action of authorities, developers, investors and consultants.

With the GET FiT Secretariat now fully staffed and operational, the underlying risks and uncertainties are being actively and regularly monitored. The coming year will prove decisive in terms of the Program's prospects for achieving its time-bound targets; with progress on the existing portfolio and the results of the third and final RFP round being the critical developments to follow during the year. In order to effectively steer the GET FiT project portfolio through the development phase to commissioning will require dedicated and coordinated efforts from all involved stakeholders. With a sizeable project portfolio already approved, the GET FiT Secretariat is committed to do its part to ensure that the people of Uganda reap the full and timely benefits of these projects, and thus of the GET FiT Program itself.



MESSAGE FROM THE CEO OF ELECTRICITY REGULATORY AUTHORITY

Uganda's Vision 2040, which has been adopted as the country's economic development agenda for the period 2013-2040, is 'A transformed Ugandan society from a peasant to a modern and prosperous country within thirty years'.

With specific reference to the energy sector, Vision 2040 recognizes that energy and in particular electricity is a driver of socio-economic transformation of a nation. For Uganda to shift from a peasantry to an industrialized and largely urban society, it must be propelled by electricity as a form of modern energy hence the need to develop and generate modern energy to drive the industry and service sectors..



Dr. Benon Mutambi, CEO of ERA Uganda

With the growing demand for electricity in Uganda, estimated between 10-12% per annum, Electricity Regulatory Authority (ERA) will continue to focus on expansion of generation capacity, with corresponding investment in transmission and distribution infrastructure, in order to facilitate achievement of national strategic objectives.

With support from Development Partners, the Ministry of Finance, Planning and Economic Development and the Ministry of Energy and Mineral Development, Electricity Regulatory Authority is implementing a number of programs and projects to expand generation capacity. The Global Energy Transfer for Feed-in-Tariffs (GET FiT) scheme is one of these programs. This initiative has incentivized Project Developers to accelerate renewable energy project development. We expect an additional 103 MW onto the national grid within the next two to three years, from hydropower and biomass projects. Further to this, we expect to develop a 20MW solar photovoltaic grid-connected project within the same period.

The GET FiT technical assistance program has also enhanced the capacity of ERA staff, specifically in technical and environmental due-diligence, as well as financial modelling. The skills and knowledge imparted by this initiative have resulted into greater operational efficiency. Overall, the GET FiT program has supplemented Government of Uganda's efforts towards realization of Vision 2040 by contributing to improved security of electricity supply through mitigation of power supply shortages in the short term.

The Authority is extremely grateful to all the participating Development Partners.

A handwritten signature in black ink, appearing to read 'Benon Mutambi'.

Dr. Benon Mutambi, CEO of ERA Uganda

MESSAGE FROM KfW

Dear Readers,

It is with great pleasure that we present you the first Annual Progress Report for the GET FiT Program Uganda. Behind us lies an exciting initial year of Program implementation.

After the launch of the first Request for Proposals in March 2013 we were overwhelmed by the positive response from the private sector.

This proves that with well-targeted support private investments can be attracted into the energy sector in developing countries.



Dr. Norbert Kloppenburg, Member of the Executive Board of KfW

The combination of result based premium payments on the existing Renewable Energy Feed in Tariff with standardized, well-structured and bankable Power Purchase and Implementation Agreements as well as a Partial Risk Guarantee from the World Bank have convinced international developers that Uganda's energy sector is indeed a promising market!

Until today, 12 small Renewable Energy Projects have successfully applied for support under GET FiT. This means 103 MW of climate friendly, cost efficient energy from hydro, bagasse and biomass that will help Uganda to meet its ever increasing demand for electricity.

Building up on this success, the GET FiT Solar Facility was introduced in January 2014 – adding Solar PV to the list of technologies eligible for GET FiT support. The innovative concept of combining premium payments with a reverse auctioning process has attracted a number of renowned developers and we are confident that the first grid connected Solar PV plants will be added to the Ugandan generation mix in 2015/16.

GET FiT is only possible thanks to the strong commitment and ownership of the Government of Uganda and the Electricity Regulatory Authority (ERA). Looking back at the last 12 months of implementation we can only congratulate the Government and ERA for their continuous commitment to private sector participation, renewable energy generation as well as sustainable and transparent sector policy and regulation. The revision of the standardized Power Purchase Agreement and Implementation Agreement has not been an easy task, but it laid the foundation for private investments into the sector. Developers and lenders alike applaud Uganda to this achievement.

Last but not least we would like to thank the Governments of Norway, the United Kingdom, the Federal Republic of Germany as well as the European Union – without their financial support GET FiT would not have been possible.

2013 has marked the successful start of the GET FiT Program, but a lot of work lies ahead of us – for developers, the Government and KfW as the implementing agency. At KfW we remain committed to ensuring quality and progress of the Program. The interest the GET FiT Program in Uganda is creating, not only in Sub-Saharan Africa, but also in Asia, South America and Eastern Europe confirms that GET FiT comes at the right time and addresses challenges faced in many countries.

A handwritten signature in black ink, appearing to read 'W. Kloppenburg', written in a cursive style.

ABOUT GET FIT UGANDA

The GET FiT Uganda Program was officially launched on May 31st 2013. The program, which has been jointly developed by the Government of Uganda, the Electricity Regulatory Agency (ERA) and KfW is designed to leverage private investment into renewable energy generation projects in Uganda. GET FiT is being supported by the Government of Norway, the United Kingdom, the Government of Germany and EU through the EU Africa Infrastructure Fund as well as the World Bank through their IDA Partial Risk Guarantee (PRG) instrument.

The main objective of the GET FiT Program is to assist East African nations in pursuing a climate resilient low-carbon development path resulting in growth, poverty reduction and climate change mitigation. Roll-out of the program has started in Uganda. In Uganda, GET FiT intends to fast-track a portfolio of about 20 small-scale renewable energy (RE) generation projects, promoted by private developers and with a total installed capacity of roughly 170 MW. This will yield approximately 830 GWh production per year, transforming Uganda's energy mix within a period of 3-5 years, and resulting in:

- emission reductions of roughly 11M tons of CO₂ the 20-year lifespan of Power Purchase Agreements (PPAs);
- an increase in Uganda's energy production by about 20%, and thus a contribution to tackling an anticipated supply shortage in 2015;
- facilitating (or significantly improving) access to energy for at least 200.000 additional households (approximately 1.2M people), also in rural areas due to strengthening of regional grids;
- leveraging of close to MEUR 400 in public and private investments for RE generation projects with a limited amount of results-based grant funding



Official launch of the GET FiT Uganda program. Mr. Thorbjørn Gaustadsæther (Ambassador of Norway), Mr. Dirk Niebel (Former Federal Minister for Economic Cooperation and Development, Germany), Peter Lokeris (Minister of State for Mineral Development, Uganda), May 31, 2013. Also present, but not in the picture: Daniel Graymore, Head of Office DfID (Photo: GET FiT)

WHAT IS THE CHALLENGE?

There is a looming power-supply shortage for the Ugandan national power grid. Demand on the national grid is likely to start out-stripping supply by 2014/15. As a result of power and fuel supply shortages between 2006-2008 alone, Uganda saw its GDP growth reduced from 6-6.5% to 4.5%, costing the economy hundreds of millions of dollars. Clearly, a new situation of undersupply and/or costly thermal generation should be avoided. Unless new renewable power sources are brought online, the sector will again face load-shedding or become reliant upon expensive thermal generation.

According to Multiconsult/Norplan (July, 2013), this supply-demand gap is expected to start modestly in 2014 and grow steadily until the commissioning of the larger hydropower plants including Muzizi (46MW), Isimba (183MW) and Karuma (600MW). Even if these plants are commissioned on time, in the meantime thermal plant generation will put a high cost on the system unless new sources are developed.

While the Ugandan power sector has undergone considerable reform over the past decade, several challenges remain in terms of attracting investments particularly in small renewables:

Patchy enabling environment for investment in small renewables. Uganda was ranked 132 out of 189 in the World Bank's Doing Business index (2014), indicating an up-hill battle for a Government and energy sector eagerly seeking foreign investment. Despite potential, especially in small hydropower and biomass, developers and investors have expressed frustration in terms of ensuring predictability, consistency and transparency in bringing their projects from concept to profitable investment.

Insufficient incentives to encourage investment in small renewables. While ERA has introduced (2007) a Renewable Energy Policy and a multi-generation type REFIT policy for promoting small-scale renewables, the proposed tariff levels have been widely viewed by investors as insufficient to unlock investments in the sector. These relatively low tariff levels combined with uncertain and often prolonged development processes have provided inadequate financial incentives especially for early-stage equity investment towards project development.

High demands on Government of Uganda as a counterpart in the timely realization of small renewables. The demands and expectations placed on public authorities in light of private investment in renewables, especially those that are part of project non-recourse financing, is considerable. There are high demands especially from financial investors in terms of predictable policies and actions, transparency, responsiveness, analytical capabilities, coherent negotiations and ultimately guarantee backup for payments and defaults. Like for most countries in the region, Ugandan authorities are in a constant process to meet these expectations and generally require international expertise to complement their efforts.

Promoting renewables while minimizing public/end-user financial burden. The Government of Uganda and ERA are committed to full cost reflectiveness in the energy sector. However, balancing actual costs and the ability of Ugandan consumers to pay for their power is one of the key challenges faced by the sector. Supporting investments in renewables has long term financial impact and while there is a clear economic incentive to promote small renewable generation with its relatively short lead times, ERA must take a balanced approach to ensure an efficient level of support. The relatively weak enabling environment and perceived risk levels make the achievement of this balance particularly challenging for a regulator.

HOW DOES GET FIT ADDRESS THESE CHALLENGES?

The main purpose of the GET FiT Uganda Program is to fast-track a portfolio of about 15 small-scale RE generation projects (1MW-20MW) promoted by private developers with a total installed capacity of roughly 150 MW. An additional 20 MW is targeted from the recently launched solar tender, which is currently being implemented by ERA under the GET FiT Solar Facility. The multiple support levers of the program, described below, are designed to address (simultaneously and somewhat flexibly) the specific challenges described above.

A successful program will be characterized by i) timely commissioning of up to 170 MW of renewable energy capacity (within the next 3 years) representing a 21% increase relative to current installed capacity, ii) avoidance of significant costs for the sector and emissions from fossil fuel generation, iii) improved sector performance and investment attractiveness, iv) a sustainable exit, with cost-reflective and REFIT levels, and v) ERA better equipped to regulate the sector.

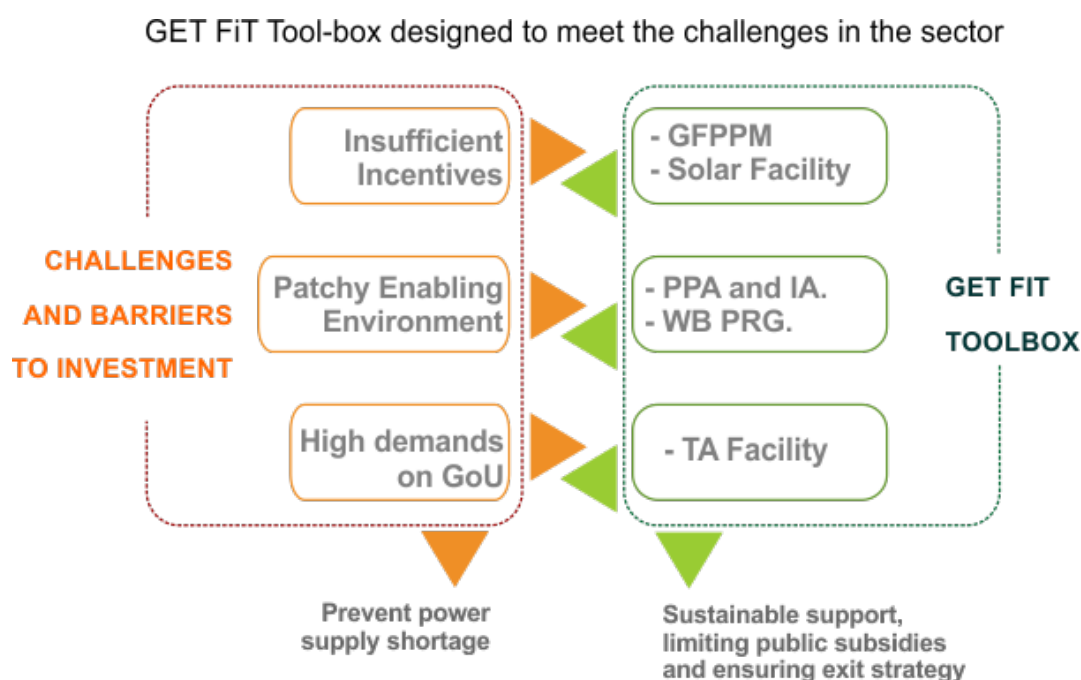


Figure 1: The GET FiT toolbox is designed to meet the primary challenges and barriers to energy sector investments

Each of the support and funding levers are critical contributions towards this success:

A. The GET FiT Premium Payment Mechanism (GFPPM). The primary support component of the GET FiT Program is the top-up payment provided to projects in terms of USc/kWh (USc 1.4/kWh for hydropower and USc 1.0/kWh for biomass and bagasse) for actual delivery of energy to the national grid over 20 years. However, the total support is front-loaded by means of discounting of the total support over the 20 years and disbursed based on the first five years of operation. The intention behind this payment flow setup is to enable commercial lending to projects, by providing additional cash flow to project owners during critical (early) debt repayment periods.

Figure 2: The GFPPM provides additional cash flow to project owners in the critical, early phase of debt repayment

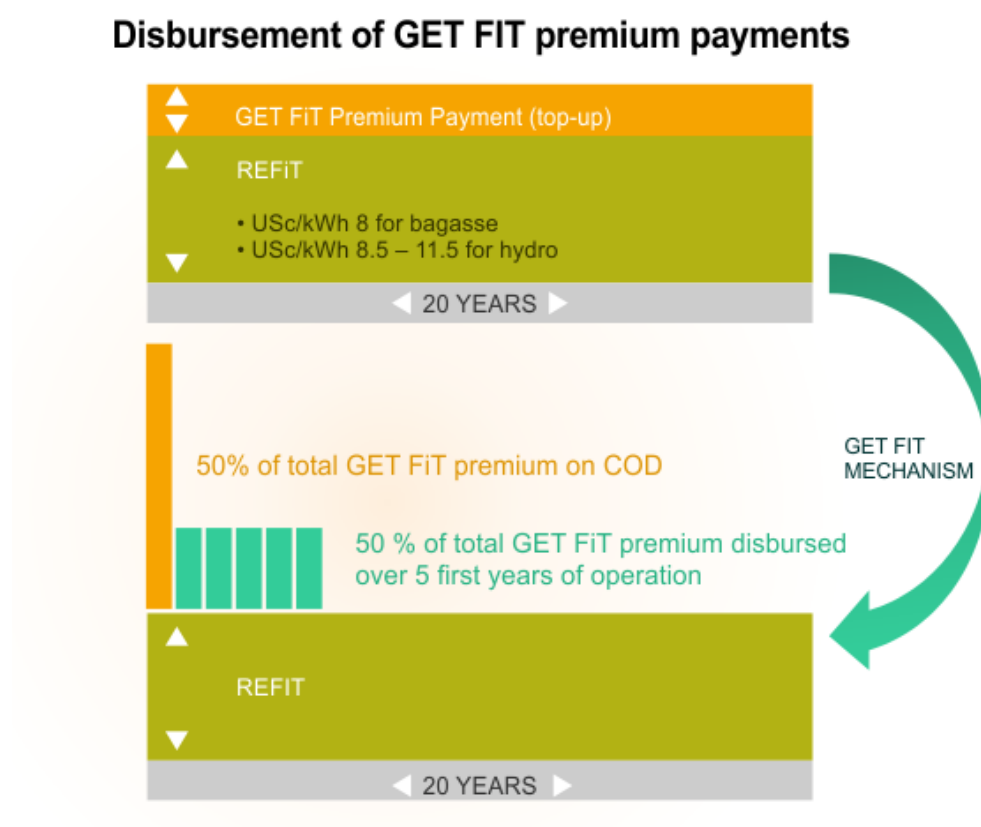


Figure 2: The GET FiT Premium Payment Mechanism provides additional cash flow to project owners in the critical, early phase of debt repayment

B. GET FiT Solar Facility. Technology costs for solar/PV have plummeted in recent years, while investors show increasing interest for investment in solar/PV in East Africa. The vast potential, the short lead-time and geographic flexibility of solar/PV technology has lead ERA to approach KfW and GET FiT to include a component targeting on-grid solar/PV under the GET FiT program. The funds for this additional component of the GET FiT Program are provided by the EU. The GET FiT Solar Facility involves a reverse auction approach, whereby ERA has defined a tariff of USc 11 for its contribution per KWh and GET FiT will provide the required top-up / gap payments to the tariffs offered by successful bidders. Thus, the eventual amount (MW) of PV installations to be supported by the available GET FiT budget will be a function of the reverse auction outcome. The facility will benefit from the design and administrative set-up of the overall GET FiT Program and be implemented under its umbrella. The tender is expected to result in 4x5MWp installations with COD by end of 2015/16.

Figure 3 illustrates the prioritized geographic areas of the country, as determined by UETCL, UMEME and ERA. The selection of priority areas are based on proximity to electricity demand and important load centres.

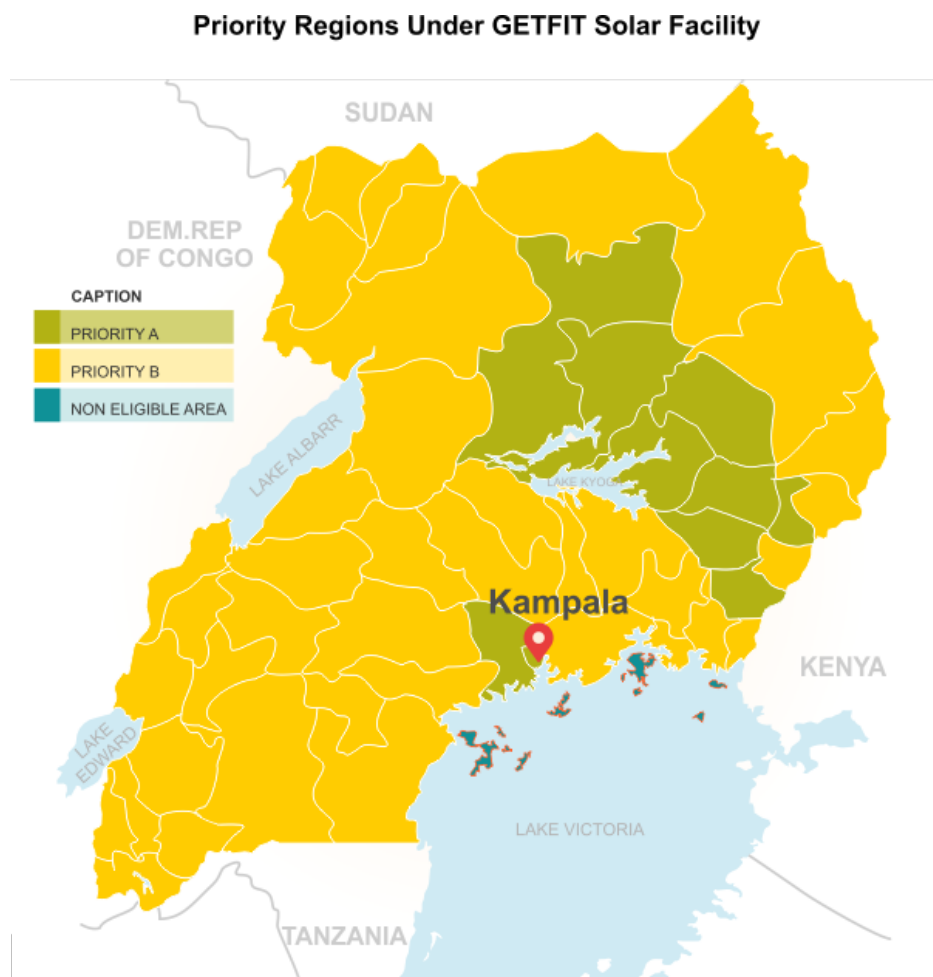


Figure 3: Priority regions under the GET FiT Solar Facility (based on insolation conditions, demand and grid readiness)

C. World Bank IDA Partial Risk Guarantee Facility. On March 18th, 2014, a Partial Risk Guarantee (PRG) facility in support of small scale renewable projects in Uganda was approved by the World Bank Group Executive Board. The PRG program design and implementation are critically dependent upon the systems in place to implement, manage and monitor the GET FiT portfolio. The MUSD 160 committed for the PRG facility will specifically be deployed as three complimentary risk-mitigating components;

- i. Facilitate the provision of short term liquidity support to the benefit of UETCL's Power Purchase Agreement obligations.
- ii. Termination compensation for events of governmental/utility default under the PPA / IA.
- iii. Commercial debt guarantee.

The World Bank PRG team utilizes the application and appraisal documents of GET FiT Premium Payment Mechanism for their PRG approval process and closely work with the GET FiT Secretariat. Both application and appraisal processes are synchronized in terms of timing, thus reducing transaction costs for IPPs interested in both components.

D. GET FiT Technical Assistance (TA) Facility. The TA Facility for ERA includes measures ensuring the long term sustainability of the arrangements for support to RE in Uganda, including enhancement of skills for REFiT tariff modelling, least cost development planning, Solar PV Tender / reverse auctioning, project due diligence expertise, strategic communication and negotiation. The TA Facility finances targeted trainings for selected staff members and groups through external as well as on-the-job training.



WHAT ARE THE OPPORTUNITIES FOR SUCCESS IN UGANDA?

Uganda has one of the more liberalized power sectors in Africa. In 2007, GoU introduced the Renewable Energy Policy and a multi-generation type REFiT policy for promoting small-scale renewables. This REFiT policy provided a particularly attractive entry point – and exit strategy – for the GET FiT Program. Specifically, it was widely viewed in the market that the initial REFiT was slightly low to stimulate private investment in renewables in Uganda. Balancing end-user ability to pay and industry requirements, GoU and ERA committed to gradually increase the REFiT to a truly cost reflective level. This introduced a time-bound opportunity for cooperation to ensure fast-tracked promotion of new renewables in the light of the looming generation crisis.

There is increasing interest by a diverse range of **investors** in renewable energy in Eastern Africa. The 12 projects thus far approved by the Program all have more or less formal commitments for full investment needs – totaling some MUSD 327. The observed interest by local and international developers, DFIs, World Bank, international equity investors and commercial banks in the GET FiT Program has been overwhelming, culminating with 17 IPP applications for the first RfP rounds and 24 Expressions of Interest for the on-grid solar power tender under the GET FiT Solar Facility.

Given the above and the results-based design of the support, **development partners** have been highly positive and have provided full support - matched by considerable expectations regarding results. The design ensures that donors will provide project-level payment only once results are delivered – increased production of renewable energy, coupled by reduced emissions and socio-economic benefits. The results-based design ensures alignment of incentives for all parties involved.



The superb coordination spearheaded by KfW and GETFiT Secretariat among relevant government agencies, international donor community, developers and the lenders has finally paid rich dividends paving way for a landmark institutional framework which will lead to faster and sustainable development of the Ugandan power sector. We, Eco Power Group as a developer are ever grateful to GETFiT for addressing barriers we were facing in undertaking SHPs in Uganda. We congratulate the GetFiT for the success so far achieved and wish for a smooth implementation of the scheme.

BHATIYA, EcoPower – Rwimi



WHO HAS RALLIED BEHIND GET FiT?

Recognizing the prevailing challenges and opportunities facing the sector, **GoU and ERA** worked actively together with KfW to put the targeted and time-bound support to work. In order to ensure rapid and efficient implementation, GoU provided KfW with delegated authority in terms of implementing the Program. As the implementing agency, ERA has fully embraced the Program and maintained high expectations in terms of timely results. ERA participates in the Steering Committee as well as a range of critical discussions concerning implementation, often represented by senior management. In order to ensure sustainability of the GET FiT Program and full engagement by ERA staff, considerable effort is made to ensure full compatibility of the program's governance, support, procedures, etc with ERA's own systems and planning. ERA has found a wide range of means to leverage the support and efforts provided by GET FiT into their daily challenges.

Provided with delegated authority from GoU, **KfW** continues to operate as the dedicated implementing entity of the GET FiT Program in Uganda. KfW has invested considerable time, effort and reputation into the Program, ensuring proper financial management systems, developing and signing the required agreements with GoU, developers and consultants and actively engaging in the overall development of the Ugandan power sector.

The **Development Partners** of Government of Norway, Germany (BMU and BMZ), UK (DECC and DFID) and the European Union are recognized for providing predictable funding commitments towards this innovative results-based funding scheme. Together, these partners have committed MEUR 91, thus ensuring full funding of the program in order to meet the key predetermined target outputs.

The **World Bank** has both contributed to the development and implementation of the Program and has also now approved its IDA PRG facility which offers valuable risk mitigation tools to developers.

Finally, the Program will only prove as successful as the **developers and investors** promoting and implementing the projects. Thus, GET FiT has actively engaged in providing support, networks, opportunities, etc. to developers that are following the GET FiT Program. With 12 approved projects, and many more in the pipeline, these developers are everything from industrial to financial actors and generally include both domestic and international shareholders.

GET FIT UGANDA GOVERNANCE STRUCTURE

The governance structure of the Program is illustrated in Figure 4. As indicated here, underpinning this structure is the delegated authority given to KfW by GoU regarding all aspects of implementation of GET FiT. This ensures that KfW can run the tender process, sign the required agreements, manage funding commitments and disbursements from development partners and generally promote the program. KfW is on behalf of GoU, the implementing agency of the program, together with ERA, ensuring a policy-conform and consistent implementation of the Program.

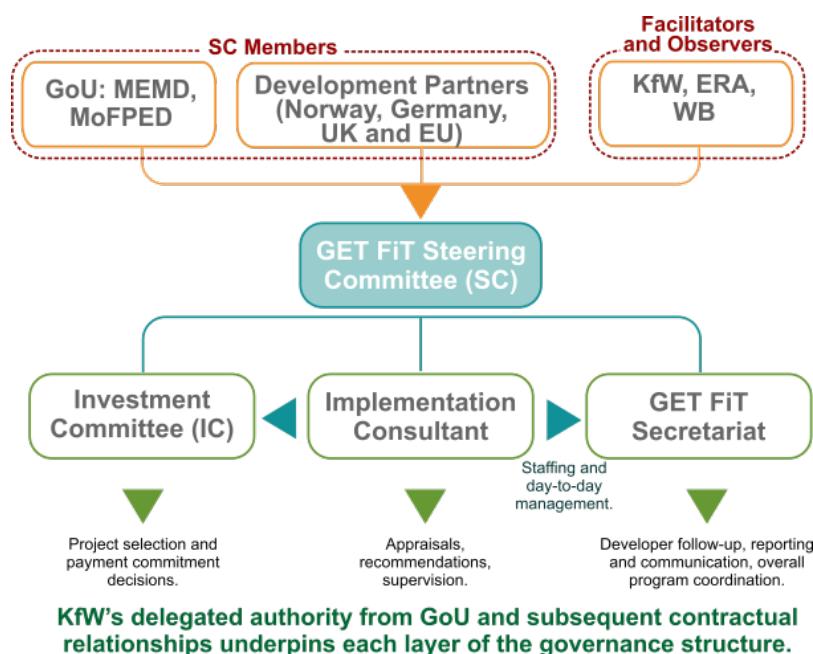


Figure 4: The governance structure of GET FiT is designed to ensure a fair tender/proposal process, thorough selection, high quality follow-up and efficient monitoring of approved projects

The main governing body of the GET FiT Program is the Steering Committee, which comprises of one representative from each development partner and two representatives from the Government of Uganda (Ministry of Energy and Mineral Development, MEMD and Ministry of Finance and Economic Planning, MoFPED). KfW, the World Bank, ERA and the GET FiT Secretariat have non-voting representation. The Steering Committee has the responsibility for determining all policy-related principles of the GET FiT Program, which includes amendments or changes to guidelines on all operational levels of the facility.

SC MEMBERS	SC FACILITATORS AND OBSERVERS
Ministry of Finance, Planning and Economic Development	KfW
Ministry of Energy and Mineral Development	GET FiT Secretariat
Government of UK (DFID and DECC)	Ugandan Electricity Regulatory Authority
European Delegation	World Bank
Government of Norway	Invited Consultants
Government of Germany	

Table 1: Steering committee members, facilitators and observers of the GET FiT Program

The **Investment Committee**, consisting of seven international (renewable) energy sector and infrastructure investment experts, is the body in charge of the final appraisal and investment decision for applying projects under the GET FiT Program. Additionally, the Investment Committee makes proposals for changes and adaptations of GET FiT policies and guidelines for the consideration of the Steering Committee.

The **Secretariat** is tasked with day-to-day management, coordination and supervision of the Program's implementation. The Secretariat, among other things, facilitate meetings for relevant stakeholders, ensures smooth and timely running of the RfPs and subsequent appraisals and IC meetings, maintains a dialogue with developers, implements the TA Facility, and follows up on action points from GoU, KfW, the SC and IC.

The **Implementation Consultant**, among other things, manages the day-to-day business of the Secretariat, performs the independent appraisals during the RfP process, carries out the supervision of the individual projects, supports KfW in budget and disbursement planning, and provides regular reporting upon Program implementation.

The GET FiT **project cycle** is as illustrated by Figure 5. The selection of RE projects to be considered for support by the GFPPM and the GET FiT Solar Facility follows an open and transparent RfP. Projects need to be sufficiently advanced in project preparation (e.g. feasibility, ESIA (screening for solar), RAP, interconnection study concluded) to be eligible to apply. Projects will have to demonstrate that they a) are financially and economically sustainable, b) technically sound, c) developed by a developer/sponsor with a reliable project record and d) comply with IFC Performance Standards on Environmental and Social Sustainability (2012). In addition, a comprehensive legal due diligence is performed. Project Proposals under the GET FiT Program are appraised by the Implementation Consultant. Support under GET FiT is provided on a competitive, first-come-first-serve basis until funds are exhausted.

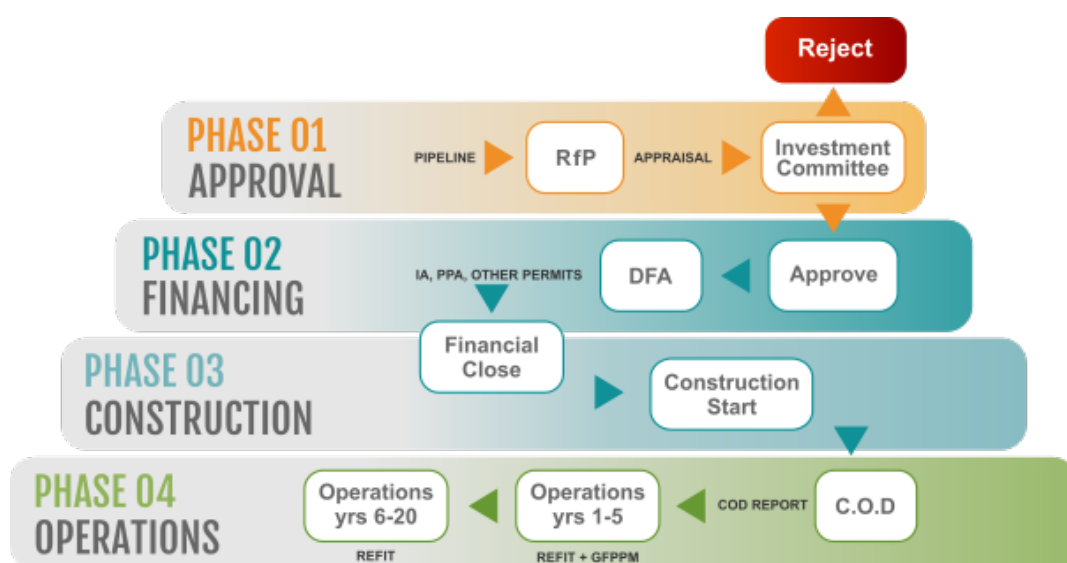


Figure 5: The GET FiT Project Cycle aims to efficiently bring projects from approval to operation, by providing a streamlined and transparent process with a set of distinct milestones

TARGETING NEW RENEWABLE CAPACITY: RESULTS OF TWO RFP ROUNDS

Over the past year, ERA, KfW and the GET FiT Secretariat have cooperated closely in order to fully realize the GET FiT potential. Specifically, two Requests for Proposals (RfPs) (launched Mar 2013 and Nov 2013) have resulted in 12 approved projects representing 103MW installed capacity. This portfolio build-up would suggest that GET FiT is proving successful in i) providing a credible and transparent time-bound business opportunity which motivates early-stage investment in RE development activities, ii) filtering the market to ensure that viable sites with credible developers emerge for financiers, iii) incentivizing and assisting the GoU and developers in avoiding critical barriers from stopping attractive projects. Specifically, as indicated by Figure 6, both the level and front loaded nature of the GET FiT support is exceptionally well designed and calibrated to ensure that project returns fall within the not-to-high and not-too-low zone.

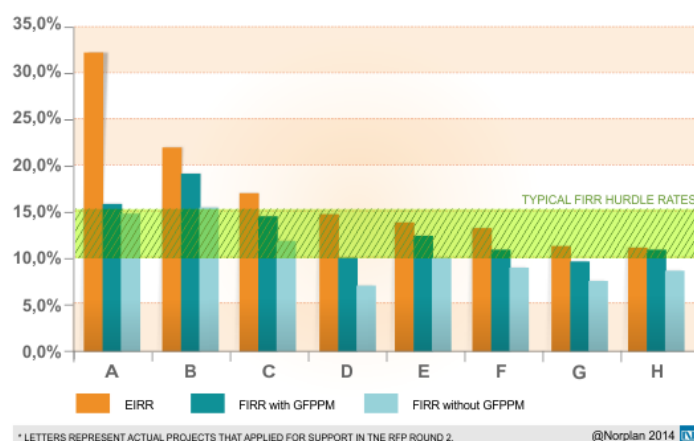


Figure 6: The GFPPM has proven well-calibrated in lifting project returns up to the level of FIRR (financial internal rate of return) hurdle rates (minimum acceptable rate to) applied by investors

As illustrated in Figure 7, the two first RfPs were successful in building up GET FiT's portfolio, currently standing at 103MW. This leaves about 47MW for the third round to reach the pre-defined Program target for installed capacity under the GFPPM (not including the 20 MW expected from the Solar Facility).

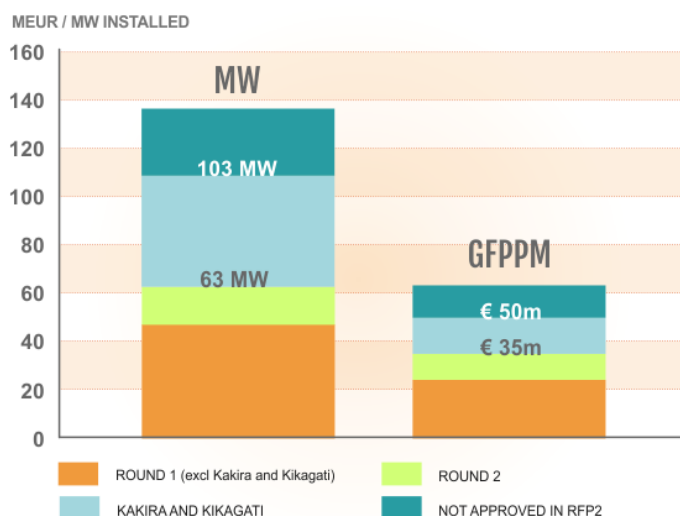


Figure 7: Current portfolio bodes well for reaching the overall GET FiT Program target

INTRODUCING ON-GRID SOLAR TO UGANDA

Until April 2014, considerable progress has been achieved in regards to the overall procurement process for the GET FiT solar facility. The tender agent (AGUT EAS) has been procured and mobilized, and key policy issues have been discussed and settled. These activities concluded with a request for expression of interests, resulting in 24 submissions from renowned international solar developers. Two key policy decisions during this process included the geographic prioritization for eventual project locations considering both irradiation, local demand and interconnection and the pre-determined tariff to be paid by UETCL, and set by ERA, of USc 11/KWh. As described above, the gap that remains between the tariff of the successful bidders and this USc 11 will be covered by GET FiT. A final key activity under this facility is the tailoring of the standardized PPA to suit the requirements of solar PV.

The GET FiT Solar Facility is on track in terms of the indicative time-line illustrated below. It is expected that the tender will result in some 20MWp (4x5MWp) installed and commissioned in late 2015/16. The short lead time for solar makes it an economically attractive addition to the electricity mix, justifying the relatively high cost per kWh.

It can be expected that this will just be the first stage for the Ugandan solar market. ERA currently assumes that a total of 50 MWp of solar can be accommodated by the grid based on available spinning reserve. Hence, it is expected that ERA will conduct further tenders at a later stage, either with GET FiT support or, in case of further decreasing LCOE for solar, potentially without.

GETFIT solar facility and tentative time schedule

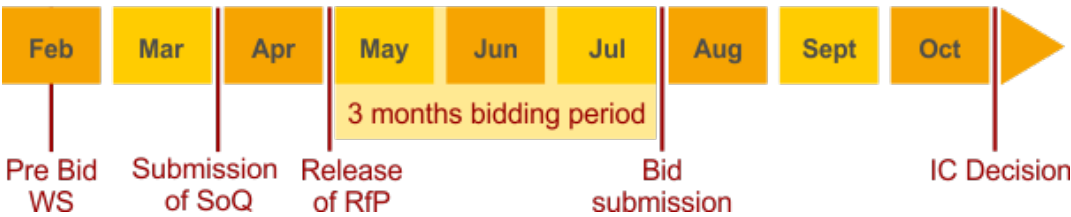


Figure 8: Expected progress on solar portfolio in 2014

Given the amount of effort and relative unique structure of the program, this is another positive milestone for GET FiT.

APPROVAL OF STANDARDIZED IA AND PPA FOR SMALL RENEWABLES

In early 2014, both the Standardized Implementation Agreement (IA) and Power Purchase Agreement (PPA, small hydro) were approved by Uganda's Solicitor General (The PPA and IA have been developed by Trinity International LLP in their role as legal counsel to GoU/KfW). This is widely seen as a key milestone for GoU, ERA and the GET FiT Program, as it paves the way for significantly reduced transaction costs while providing a truly bankable security package to investors. The milestone was the culmination of dedicated efforts by all stakeholders, including extensive involvement of DFIs, over several months. Notably, the GET FiT hosted commercial bank roundtable revealed general consensus that the agreements are balanced and bankable. The first PPAs have already been initialed after only hours of negotiation. With the support of the GET FiT Program and based on the standardized documents for hydro, the PPA / IAs for biomass/bagasse and solar/PV-based projects are currently being developed.

It is the Secretariat's expectation that the recent approval of these standardized agreements will help ensure a new sense of momentum, or even urgency, among developers and investors in achieving financial close. Dedicated efforts will be employed to ensure progress on this front during the coming year.

APPROVAL OF THE WORLD BANK GET FIT PRG PROGRAM

Following extensive dialogue with the GoU, ERA and the GET FiT Program, the World Bank has successfully structured and approved (March 2014) their IDA PRG Program for small renewables and GET FiT approved projects in particular.

The program opens up for an extra layer of security for potential investors, providing relatively easy access to risk mitigating products to provide international investors with extra comfort. The PRG provides complimentary support to the GET FiT Program, while also providing World Bank endorsement to the GET FiT implementation structures, as well as the PPA and IA.

Given the amount of effort and relative unique structure of the program, this is another positive milestone for GET FiT.

HELPING MOBILIZE INVESTOR INTEREST AND PARTICIPATION

The GET FiT Secretariat has received consistent feedback from developers and investors that the relatively high transaction costs for small-scale RE projects have a negative impact on early-stage investor appetite and resulting due diligence requirements are often prohibitive in terms of realizing such projects. The GET FiT program looks to address these barriers in various ways, as listed below. An important aim when raising these issues, is establishing a better understanding of the range of barriers among all stakeholders. Although GET FiT has initiated a broad discussion and facilitated an environment for potential progress, one should still anticipate that barriers related to private investment in small-scale RE projects will remain present and challenging, thus requiring further discussion, sector-wide commitments and efforts.

Transaction costs. Considerable effort, funds, international legal expertise and extensive DFI involvement have culminated with standardized PPA and IA for small hydropower projects. DFI's have confirmed that this will significantly reduce the threshold (and cost) for pursuing non-recourse finance deals in the sector.

Equity investor appetite. By providing a credible financial business case, time-frame and GoU counterpart follow-up, GET FiT seeks to provide equity investors with greater security that with dedicated and professional development, their project should stand a good chance for realization.

Due diligence. For lenders and financial/passive investors, the GET FiT appraisal and IC approval process ensures that only fundamentally sound projects with credible investors emerge. The aim is to reduce significant barriers for investors that might not otherwise be interested in such small projects. Furthermore, the GET FiT Secretariat shares the appraisal documents with investor due diligence teams upon request of the respective project developer. This process will also contribute to decreased transaction costs and, subsequently, financing costs.

Risk mitigation. Finally, in connection with the standardized PPA and IA, risk mitigation and distribution are key elements. At the GET FiT arranged commercial banking round-table, it was noted by several speakers that "the PPA and circulated versions of the IA appear bankable and attractive". This view is further reinforced by having gained the stamp of approval by WB and DFIs .

Targeting commercial banks. In an initiative together with the GET FiT Steering Committee, the GET FiT Secretariat has engaged with commercial banks in potential financing opportunities related to renewable energy in Uganda generally, and the GET FiT portfolio more specifically. On the back of several bilateral meetings and discussions with relevant commercial bank contacts, the GET FiT Secretariat and ERA hosted a round-table discussion on February 24th in Kampala, titled: ***"Facilitating Commercial Banks involvement in RE project financing in Uganda"***. See figure 9 (box) for a summary of the outcome of the roundtable and Appendix 5 for the Communiqué which resulted.

The round table involved 30 invited individuals, including representatives from: Citi, Stanbic, Standard Chartered, DFCU, Barclays, FMO, EIAF, DEG, PTA, Norfund, UECCC, ERA, MEMD. The roundtable was followed by networking particularly between DFIs and commercial banks. Developers in the GET FiT community have received a complete list of the contact points at the various commercial banks.

Facilitating Commercial Banks involvement in RE project financing in Uganda

In addition to candid discussions regarding the investment opportunities and barriers for commercial banks, the Secretariat developed a Communiqué, which included commitments by various stakeholders (as interpreted by the Secretariat):

COMMITMENTS TO ACTION

While no single institution is obliged to, or capable of, achieving greater involvement of commercial banks in the sector, some **general reaffirmations of commitments** were made;

The authorities, with ERA in the lead, will continue to promote an efficient and transparent policy and regulatory regime which promotes private investment to the sector.

UETCL and Government of Uganda committed to working with developers and financiers to make projects bankable, within the context of the standardized Power Purchase Agreement and Implementation Agreement.

Development Finance Institutions committed to work pro-actively with commercial banks, especially on specific investment opportunities, to ensure complementarities and efficient allocations of financial resources.

Commercial banks committed to learning more about the investment opportunities and seeking out learning, cooperation and co-financing opportunities with DFIs.

The GET-FIT Secretariat committed to continuing to facilitate dialogue between developers, DFIs and commercial banks in an effort ensure that all opportunities for realizing projects are explored.

ERA CAPACITY BUILDING

The GET FiT Secretariat has put considerable effort into close working relationships with ERA, as well as carrying out the various Technical Assistance tenders. Specifically, GET FiT contributes to ERA in carrying out its tasks and building its competence in two primary ways;

Professional twinning. Due to the presence of the GET FiT Secretariat at ERA, the GET FiT team has close and permanent communication ties with ERA. Further, ERA staff members have accompanied appraisal missions and will also do so for the upcoming supervision visits. ERA has assigned a GET FiT liaison team covering the various disciplines – technical, environment and social, and economics and finance – who meets regularly with the members of the GET FiT Secretariat to discuss pending issues and align information flow.

TA Facility. Of the planned four major TA components, the following have been procured:

Solar Tender Agent (AGUT Energy Advisory Services): the Solar Tender Agent supports ERA, KfW and GET FiT with the design and implementation of the GET FiT Solar Facility as well as in building up capacity at ERA to tender, appraise and select solar/ PV projects in the future. Preceding the design of the tender specifics for the reverse auction tendering process, the consultant has conducted an assessment of the regulatory and technical environment for the deployment of solar/PV technology in Uganda. AGUT will also be in charge of the evaluation of the submitted bids and the preparation of investment proposals to the GET FiT Investment Committee (scheduled for Oct/Nov 2014). The workshops for the training for ERA staff are scheduled for 2nd quarter 2014.

Optimization of ERA **Due Diligence** (Grontmij): This consultancy will support ERA in optimizing and streamlining its technical, environmental and financial/economical project due diligence for the permit and license application processes. Key outcomes will be standardized best practice procedures and application templates and, subsequently, a more time efficient and holistic appraisal process.

Currently, the GET FiT Secretariat is preparing the tender for the **Tariff Modelling** component, which will enable ERA to review the REFiT levels and enhance the sector's long term economic viability. Depending on the remaining budget, KfW and the GET FiT Secretariat might allocate further funds to areas of strategic relevance for ERA such as least cost planning, negotiation and public communication skills enhancement. It is noted and appreciated by the GET FiT Secretariat that ERA has specifically requested a phased implementation of the TA Facility to ensure availability of personnel, capacity to carry-out the required procurements and ensure sufficient budget for the prioritized TA components.

RELEVANT SECTOR DEVELOPMENTS

A few specific developments in the sector during the year have had some direct consequences for the Program. Specifically, these have included:

REFiT Adjustment. On July 11th, 2013, the Board of ERA resolved to increase the Renewable Energy Feed-in Tariff for small hydropower projects under GET FiT by USc 0.6/KWh. This came as a direct consequence of the large number of submissions for the first RfP round, and resulted in the reduction of the GFPPM from USc 2.0 to USc 1.4 as noted by KfW, in a letter to the Steering Committee: “We consider this decision very positive and highly welcome. With this decision, ERA provides an important signal to the market place as well as to development partners that it is committed to reform the REFiT and that it is willing to share some of the financial burden of bringing additional generation projects to close.” Specifically, the 30% reduction in the level of GET FiT support allows the Program to spread the benefit across more projects, and thus a larger amount of energy to serve the national grid. In addition to allowing for a larger number of hydro projects to be supported under GET FiT, it also validates ERA’s commitment to offer cost-reflective and investment-incentivizing RE tariff levels in medium term.

Automatic Quarterly End-user Tariff Adjustment. In its continuing efforts to ensure a cost reflective and predictable power sector, ERA launched in January 2013 its Automatic Quarterly Tariff Adjustment (see: <http://www.era.or.ug/index.php/108-featured-articles/254-quarterly-tariff-adjustment-methodology>).

The methodology ensures that end-user tariffs are adjusted automatically to account for changes in macro-economic factors such as fuel, inflation and exchange rate. This approach ensures a transparent and predictable development in tariffs in response to changes to external factors. Furthermore, it enables ERA to both maintain an effective balance versus sector cost-levels throughout the year, while also preventing that longer-term tariff v. cost-level imbalances emerge that would ultimately require more significant adjustments in order to correct.

Inter-connection of GET FiT projects. As noted in this Annual Report, the eventual timely and coordinated inter-connection of the individual projects is a considerable challenge and even risk for the timely achievement of the stated targets of GET FiT. It is thus notable that the various Ugandan entities have now firmly established the appropriate distribution of responsibilities.

Regarding the first layer of inter-connection of the power plants to the national grid, it is determined that for inter-connection of less than 5km, the project developer is responsible for planning, financing and construction of the interconnection facilities. Beyond 5km, the GoU through its dedicated agencies assumes responsibility, i.e. for 33 kV connections this will be REA, for HV connections UETCL. The funding is to be mobilized by GoU. If reinforcement of the existing grid is needed to fully integrate and thus evacuate the power to demand centres, this is also the responsibility of GoU. This is critical, since UETCL has a potential financial liability in this regard, as failure to effectively interconnect and/or fully integrate the projects will result in deemed energy payments in accordance with the standardized PPA. However, since in most instances, projects will be interconnected to the distribution system which is operated by private distribution companies like UMEME, the implementation of grid reinforcement needs to be carefully coordinated with those companies. Furthermore, issues related to operation and ensuring availability of the system as well as wheeling of power are important in this context and respective discussions have been initiated. ERA has asked KfW for support in this regard and initial discussion with Development Partners regarding additional funding for interconnection investments and related technical assistance have started.

COMMUNICATION AND VISIBILITY EVENTS

Throughout the first year, facilitation of visibility of the GET FiT Program has been a priority of all implementation stakeholders.

By setting up a dedicated [GET FiT Website](#), frequently updated information on the Program is being disseminated to developers and potential applicants. The webpage helps to raise awareness about the program, the available support as well as procedural requirements. It is also serving as a first source of information for other interested parties, such as development partners, other governments, journalists, consultants and researchers. By April 2014, roughly one year after its launch, the website has been accessed more than 40,000 times.

In addition, dedicated public events were organized to promote key milestones under the program:

Launch Event: The GET FiT Program was publicly launched on 31.05.2013 at the Serena Conference Centre in Kampala. In the presence of the German Minister for Development Cooperation and Economic Development, the Ambassadors of Norway and Germany and the Head of Cooperation of DFID Uganda, the Ugandan Minister of State for Mineral Development and the CEO of ERA officially launched the GET FiT Program. The event was attended by a number of stakeholders and well covered in the TV and print media.

Signing of DFA: In November 2014, the first Developer Finance Agreements with developers supported under the program were signed in Kampala. The signing ceremony was presided over by the Chairman of ERA Board Richard Aspire and Dr. Norbert Kloppenburg, member of the Executive Board of KfW. The signing ceremony was covered in the local media.

In addition, smaller event with selected target groups were organized, like the above mentioned **Commercial Bank Roundtable**. Notably, a **GET FiT Stakeholder Workshop** with developers and investors was held in March 2013 to raise awareness and understanding of the program's objectives. A similar workshop was organized for the GET FiT Solar Facility in February 2014.



Signing of first three GET FiT Developer Financing Agreements, November 22, 2013. (Photo: GET FiT)

KfW and the GET FiT Secretariat participated in a number of conferences, e.g. the Commonwealth Business Council (March 2013), the African Sugar Conference in Nairobi /Kenya (March 2013), the Uganda Mining and Energy Conference & Exhibition in Kampala (May 2013), the AFUR Conference in Pretoria/South Africa (July 2013) as well as the Africa Sub-Sahara Solar Conference in Accra/Ghana (April 2014) to present and promote the program. Upon invitation by ERA KfW also presented the GET FiT Program to the Natural Resource Committee of the Ugandan Parliament at a Stakeholder Symposium (July 2013) and during a Stakeholder Lunch (April 2013) that was attended by Members of Parliament, representatives of Industry and Manufacturers as well as the media.

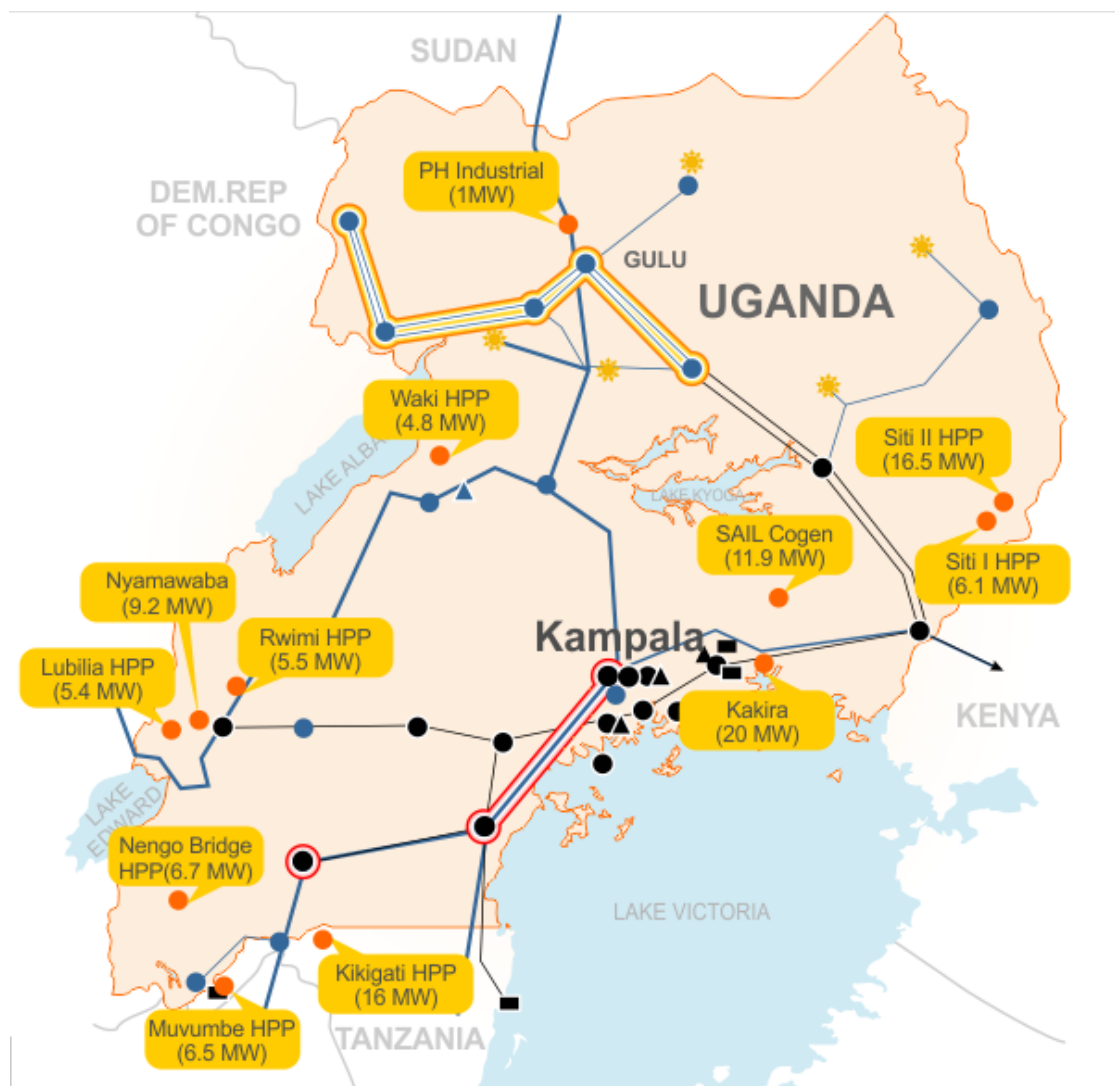
In an attempt to facilitate communication and promotion of the program, flyers have been developed and banners printed that are being used at different occasions. Together with event and audience specific press notices this has allowed broad coverage in national and international media.

While interest and coverage is naturally biggest in Uganda (illustrated by numerous press articles, radio and TV features), there have also been references in renowned international media like African Energy. This proves the success of this proactive communication strategy and ensures the visibility of donor contribution to the Program.

INTRODUCING THE PROJECTS

The location of all projects that have been approved for GET FiT support are indicated on the map below (figure 10). Naturally, most of the proposed hydropower projects are located on the rivers of south-western Uganda..

UGANDA ELECTRICITY SECTOR DEVELOPMENT PROJECT



EXISTING	PROPOSED	
		132kV LINES
		220kV LINES
		400kV LINES
		SUBSTATIONS
		HYDRO GENERATING STATIONS
		THERMAL GENERATING STATIONS
		SOLAR GENERATING STATIONS

Nyamwamba. Run-of-river HPP with an installed capacity of 9.2 MW and 36 GWh annual production. Project is located in the Kasese district. Investment of 26.8 MUS\$ with 5.8 MUS\$ in GFPPM commitments. Expected COD is Q2 2016. The project has all of the required licenses and signed DFA. It has been confirmed to the Secretariat that construction start was scheduled for June 5th, 2014. Groundbreaking has been postponed due to flooding.

Rwimi. Run-of-river HPP with an installed capacity of 5.5 MW and 27 GWh annual production. Project is located in the Kasese district. Investment of 20.8 MUS\$ with 3.9 MUS\$ in GFPPM commitments. Expected COD is Q2 2016. The project has all of the required licenses and signed DFA. PPA and IA negotiations are in advanced stages. The project is nearing financial close and construction start, expected in summer 2014.

PH Industrial Farm's. 1 MW biomass (gasified maize farm waste) plant in Gulu Region. Expected annual production is 7 GWh. Total investment of 3.5 MUS\$ with 0.5 MUS\$ in GFPPM commitments. Expected COD in mid-2015. The developer has carried out a successful EPC tender and is prepared for implementation. However, key condition precedents must first be fulfilled before DFA signing – an updated Environmental and Social Impact assessment which meets IFC performance standards and a complete fuel supply study.

SAIL Cogen. 6.9 MW biomass (bagasse from sugar production) plant in Kaliro district. Expected annual production is 104 GWh (roughly half of this, up to 48 GWh goes onto grid, while the remaining will supply energy for the sugar production on site). Investment is 21.6 MUS\$ with 2 MUS\$ in GFPPM commitments. Expected COD by end of 2014. The generation unit is already supplying the sugar factory. However, the appraisal revealed that the developer is lacking specific licenses, which are listed as strict conditions to DFA signing. Further, the appraisal team raised critical questions regarding the generation estimates that require clarifications. REA is currently constructing the interconnection facilities. Given that the plant is already operational, the developer only has to meet the formal requirements, including PPA-signing, for COD.



SAIL: biomass cogeneration facility and biomass storage in front of sugar factory

Kikigati. Run-of-river HPP with an installed capacity of 16 MW and 115 GWh annual production. Project is located in the Isingiro district. Investment of 64.4 MUS\$ with 12.3 MUS\$ in GFPPM commitments. Expected COD is in 2016, although with a considerable risk. As noted in the Annual Report, the Kikigati plant is the subject of bilateral discussions between Uganda and Tanzania. It is expected that the proposed bilateral agreement will be addressed during the EAC Heads of State meeting, tentatively scheduled for June 2014. This will likely be a decisive point for the future of the project, and as to whether or not GET FiT will continue to set aside funds for it.

Kakira Cogen. 20 MW biomass (bagasse from sugar production) plant in Butembe County. Annual production is expected to be 147 GWh. Total investment is 60.7 MUSD with 7.3 MUSD in GFPPM commitments. Expected to achieve effective GET FiT COD by end of 2014. This project is also already producing power and also delivering power to the grid, although the PPA is still being negotiated. As noted in this Annual Report, there is a possibility that an agreement is reached on the PPA that awards the developer a tariff outside of the REFiT regime. This would require a reassessment of the support to the project under GET FiT.

Nengo Bridge. Run-of-river HPP with an installed capacity of 6.7 MW and 35 GWh annual production. Project is located in the Kanungu district. Investment of 30 MUSD with 5.1 MUSD in GFPPM commitments. Expected COD is Q1 2017. The project is making progress regarding further geotechnical investigations and full financing. The developer is only now working on submission of a generation license application and financial close is expected by end of 2014.

Muvumbe. Run-of-river HPP with an installed capacity of 6.5 MW and 31 GWh annual production. Project is located in the Kabale district. Investment of 14.1 MUSD with 4.5 MUSD in GFPPM commitments. Expected COD is Q4 2016. Despite only being approved in the second round, the developer has good momentum with a technically relatively simple project with good fundamentals. However, the developer must make a comprehensive update to the ESIA before the DFA can be signed.

Lubilia. Run-of-river HPP with an installed capacity of 5.4 MW and 25 GWh annual production. Project is located in the Kasese district. Investment of 18.7 MUSD with 3.2 MUSD in GFPPM commitments. Expected COD is Q4 2016. The project is being developed by Frontier, who is also promoting Siti I & II, and Kakaka (not approved). Thus, the developer has a major stake in the sector and GET FiT. Notably, the developer intends to construct Lubilia and Kakaka in parallel, thus attaining cost efficiencies. Given the non-approval of Kakaka by the IC, it is unclear what consequences this will have on Lubilia. Nonetheless, Lubilia is treated in isolation and been given time-bound conditions for both DFA signing and disbursements.

Waki. Run-of-river HPP with an installed capacity of 4.8 MW and 25 GWh annual production. Project is located in the Bulisa district. Investment of 18.1 MUSD with 3.6 MUSD in GFPPM commitments. Expected COD is Q2 2016. Waki is expected to receive its generation license and sign its DFA within Q2 2014. There are some important concerns regarding evacuation of the power from Waki to demand centers. This concerns all actors – the developer, UETCL and GET FiT. The eventual solution is specific to Waki, but the problem of interconnection and integration affects most projects in the portfolio. ERA, MEMD and UETCL appear to now be taking this challenge seriously and in a coordinated manner.

Siti I. Run-of-river HPP with an installed capacity of 6.1 MW and 29 GWh annual production. Project is located in the Kyosoweri, Eastern Uganda. Investment of 14.8 MUSD with 3.6 MUSD in GFPPM commitments. Expected COD is Q2 2016. Both Siti I and II have generation licenses and are expected to sign their DFA's within Q2 2014.

Siti II. Run-of-river HPP with an installed capacity of 15 MW and 72 GWh annual production. Project is located in Kyosoweri, Eastern Uganda. Investment of 34 MUSD with 10.2 MUSD in GFPPM commitments. Expected COD is Q4 2016. To evacuate power from Siti II, the existing medium voltage grid in the area is not sufficient. Considering the potential for additional generation in the region, UETCL intends to construct a 132 kV line. KfW is working actively with UETCL, development partners and the developer to facilitate the timely development and implementation of the transmission line.

GENERAL STATUS AND PROGRESS OF THE PORTFOLIO

While a more detailed projection regarding project implementation and GET FiT funding is provided below, a few general observations can be noted;

- **Good portfolio build up.** As already noted, the portfolio of approved projects has grown to 103 MW within about a 15-month period. This is considered a rapid build-up of viable and relatively mature projects, all expected to conform to IFC Performance Standards.
- **Difficulties with project finance are dampening the pace.** Due to various reasons, including delays in finalization and approval of the Standardized PPA and IA, achieving financial close has proven a challenge for several projects.
- **Critical (external) risks on two of the largest projects.** Kakira is in high-level discussions with ERA and GoU regarding their PPA, and the prospects of DFA-signing is entirely dependent on the outcome of those discussions. Kikagati, on the other hand, is the subject of high level bilateral discussions between Uganda and Tanzania after the Tanzanian government reopened discussions about the contractual structure and the cross boarder design of the project. Hence, while continue to monitor developments regarding the two projects and provide input where possible and requested, the decision whether Kakira and Kikagati will be supported under GET FiT is not in the hands of KfW or the GET FiT Secretariat. If one or both are taken out of the Program, this leaves considerable additional resources for projects to be supported under RfP3. While it is too early to say whether the project pipeline remaining is sufficient to use up the funding, it would definitely result in delayed realization of project targets and disbursements.
- **The critical window of opportunity is approaching.** Provided that one can expect timely commissioning of the planned large hydro plants, the window for ensuring that GET FiT mitigates the generation deficit and reduced reliance on fossil fuels in the coming years is narrowing. It is thus essential that all approved projects see progress in the coming months and that the projects applying in the final round are relatively mature.
- **Delays on large hydropower projects will prolong window of opportunity.** However, in case one or more of the larger projects is delayed not only is the motivation for GET FiT strengthened, but the time window within which GET FiT can provide particular economic benefit will be extended. While it is too early to make adjustments to the expected COD dates, the progress seen over the last months indicates that some delays are being experienced – mainly related to financing.
- **Robust progress on enabling environment.** Despite project level delays, all commercial actors in the space continue to applaud the efforts spearheaded by ERA, and supported by GET FiT, to ensure an enabling and predictable environment for investment, including the PPA and IA, quarterly tariff adjustments, speed up license approvals, consistent stance on REFiT, etc.

TIME-FRAMES AND PORTFOLIO IMPLEMENTATION

In general, most of the approved projects are expected to reach commercial operation by 2016-2017. Figure 11 illustrates the expected build-up of installed capacity and annual generation from the GET FiT portfolio. These estimates include; i) all approved GET FiT projects, ii) 20MW of solar resulting from the current tender, and iii) approximated amounts reflecting reasonable expectations from RFP round 3.

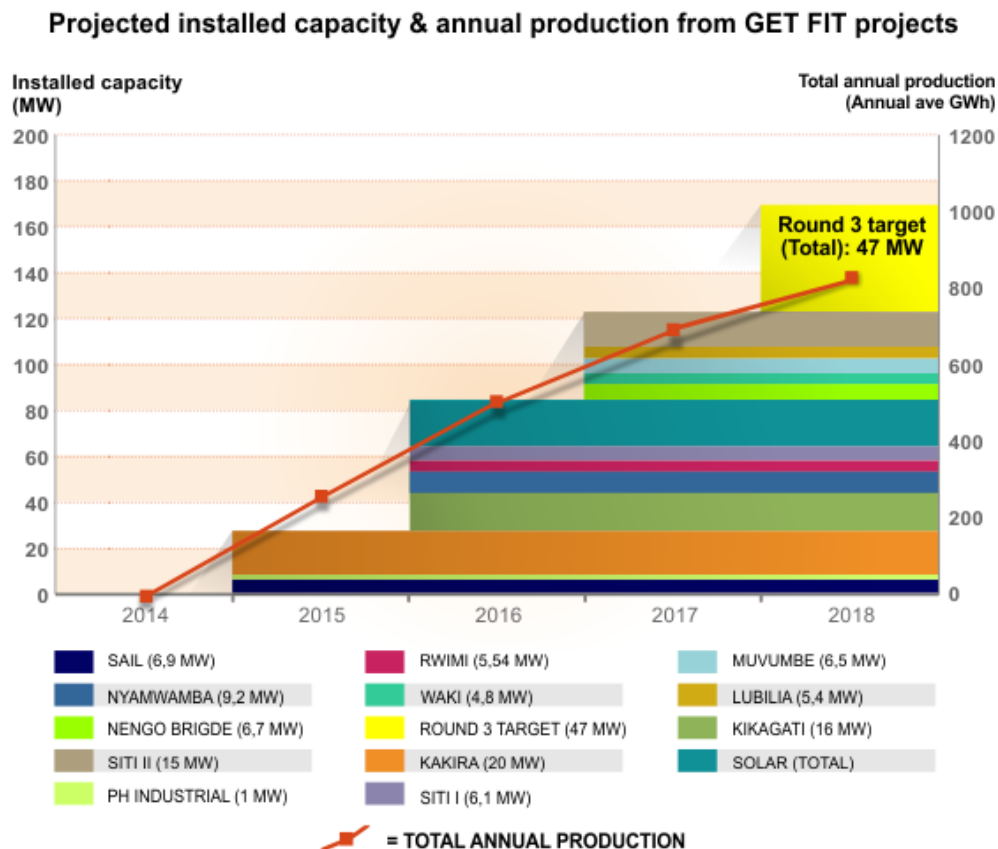


Figure 11: Targets for installed capacity (MW) and average annual energy production (GWh) are projected to be reached by 2018/19, based on current portfolio and expectations for RfP3 and the solar portfolio

FUNDING COMMITMENTS

The results-based nature of the GET FiT Program is strongly dependent upon predictable and credible commitments from funders in order to prove successful. Further, it requires a certain degree of active follow-up and flexibility on the side of donors in order to maintain a healthy cash balance throughout the Program. To this end, four development partners have taken up the challenge and provided GET FiT with the necessary funding; Government of Norway, Government of UK (through DECC and DFID), Germany (BMZ, BMU) and the EU (through EU ITF). The Program is fully funded.

To date some MEUR 91 have been committed to the program by these donors. These funds are to be used by the Program management towards the overriding objectives. While the Steering Committee (where the donors are represented) provides policy guidance concerning implementation, the bulk of funding is subject to the decisions of the Investment Committee, supported by the Secretariat.

According to the projections of the Secretariat, the current level of commitments would enable the program to achieve on key output indicators including MW, GWh and emission reductions.

DONOR	GROSS AMOUNT COMMITTED (NATIONAL CURRENCY)	NET AMOUNT COMMITTED (EUR)
Norway	140 000 000	16 440 000
UK DECC	23 500 000	26 484 500
UK DFID	11 100 000	12 509 700
Germany BMZ	15 000 000	15 000 000
Germany BMU	500 000	500 000
EU ITF	20 400 000	20 000 000
	TOTAL	90 934 200

Table 2: Overall donor commitments to GET FiT. Net amounts are subject to current exchange rates and deduction of management fees

DISBURSEMENTS PROJECTIONS

Committed disbursements from the GET FiT Program mainly go towards two purposes; i) payments to approved projects, with almost 50% paid at COD and 50% paid as results based support over the first five years of operation, subject to actual production, ii) payments to advisors and consultants, among others the Implementation Consultant, TA Facility and M&E consultants. In addition, management fee to KfW is deducted from the gross donor commitment, as illustrated in table 2. Figure 12 illustrates the expected distribution of committed payments for the first 5-6 years of the program. The projections are based on contracts signed with developers so far and the current expectations regarding solar/ PV and RFP round 3 results. It is noted that consultant and TA payments are relatively high in early years, while payments to project support are expected to take up the lion's share of the disbursements by 2016. Given the expected timing of the current portfolio, some initial COD payments are expected already in early 2015 (bagasse projects) and significant COD payments are expected in 2016. Due to the result based disbursement, the last payments cannot be expected before 2023.

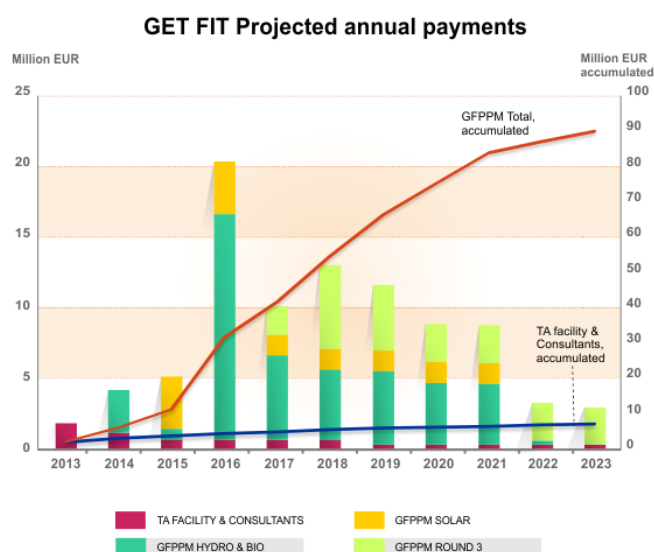


Figure 12: Projected annual payments (premium payments and consultants) under GET FiT. Current projections suggest funds will be exhausted by 2023

Figure 13 shows the relative shares of the various cost components under the GET FiT Program. Roughly 8 % of the overall funds are tied to management, implementation and TA Facility, while more than 90 % of the total commitments are expected to be disbursed as premium payments.

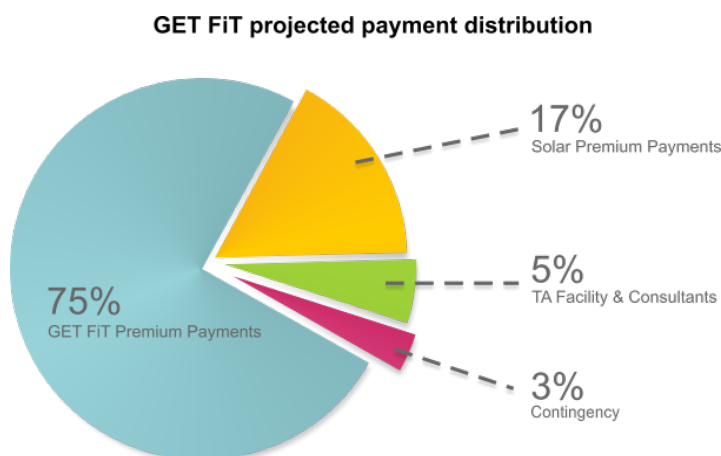


Figure 13: More than 90 % of commitments to GET FiT are projected to be disbursed as premium payments

CASH FLOW PROJECTIONS

A key GET FiT target is maximizing the Program's impact, provided the available funding. Based on lessons learned thus far and current projections, the available funding would allow the program to achieve support to some 170 MW of renewable power. Combined with timely implementation of the portfolio, this amount of installed capacity is expected to allow for full utilization of the funding commitments by 2023.

These projections (figure 14) are, however, dependent upon, and thus sensitive to, some key assumptions concerning the evolution of the program and its portfolio;

- First and foremost, the success of the program is highly dependent upon timely progress of the promoters in bringing their projects to commissioning. Delay on one or several projects will put the time-bound nature of the results and thus also disbursements at risk.
- Second, the ability of the program to fill its portfolio with the implied 170 MW of viable and mature projects will depend on the competitiveness and outcome of the third RFP currently slated for launch in Q4 of 2014. According to projections, the target will be some 50 MW with a higher concentration of bagasse/biomass than in the first two rounds.
- Third, the final target for the third RFP with regards to MW and GWh is also dependent on developments related to Kakira and Kikigati, among the largest projects in the portfolio, both of which are experiencing significant “external” risks. That is, if external events result in GET FiT having to pull its committed support, this will free up considerable funds for other projects – 36 MW and MEUR 15. Risk management in GET FiT is further described in chapter 6.
- Finally, on the funding side, maintaining the necessary financial predictability and ensuring a certain degree of flexibility with regards to project commissioning, requires maintaining a good positive cash balance (i.e. funds readily available for the GET FiT program's account at a given time).

Although the program is fully funded through the partner commitments, the Secretariat does not yet have exact schedules for future disbursement of committed funds from all donors to KfW. Hence, the projections for the later years of the program life (figure 14) are based on the general assumption that one will, together with the development partners, be able to maintain a healthy cash balance throughout the program.



As the first group to qualify for the GET-FiT subsidy in Uganda, the financial incentive was also extremely timely for us. Due to the restriction on the available tariff amount, the project was infeasible for our shareholders. The GET-FiT incentive allowed the project to cross that viability threshold, and we are now scheduled to mobilize and commence construction within the next two months, to the delight of the Uganda Electricity Regulatory Authority.

JODI, SAEMS - Nyamwamba



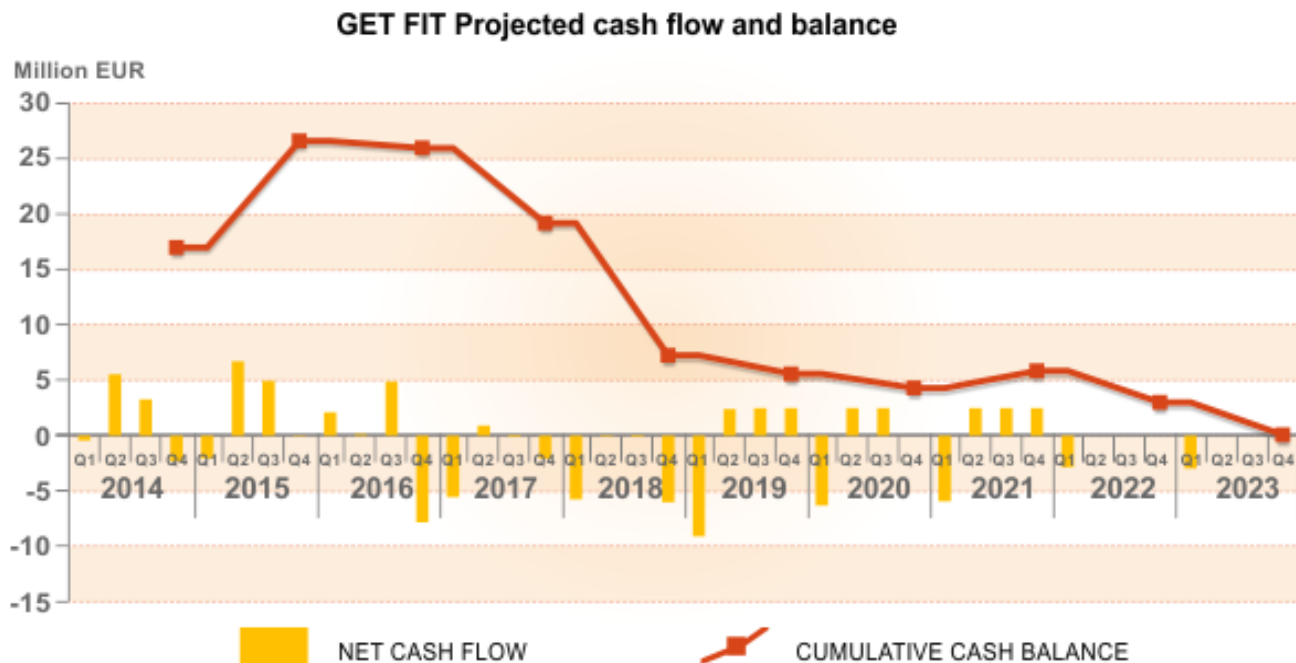


Figure 14: Projections of cash flow and cumulative cash balance indicate that GET FiT with the involved parties will be able to maintain a positive, healthy cash balance until funds are exhausted by end of 2023

Notably, in the projections for the cumulative cash balance of the Program, funds are fully utilized by 2023, for which the final premium payments are expected. This result is actually achieved by assuming a slightly higher capacity target than 170 MW. This indicates that, provided the available funding, one could potentially over-achieve on installed capacity relative to the pre-defined target. However, this is not only dependent on the actual production of the approved projects, but also on the eventual technology mix, since the level of premium payment varies between technologies.

The different utilization rates (the rate of cumulative hours of production at full capacity vs. total hours per annum) of various technologies are affecting the actual output from each MW being installed.

THE PROGRAM'S LOGFRAME AND EARLY PROGRESS

During the period, extensive effort has gone into ensuring a logical link between inputs/efforts /funds and targeted results. This has also been matched by the development of a monitoring and evaluation framework (M&E)¹ . Among others, this has resulted in i) a comprehensive description of the program in a theory of change context, ii) a comprehensive log-frame (goal hierarchy), iii) a monitoring and reporting toolbox, and iv) ToRs for the both the monitoring consultant and evaluation consultant.

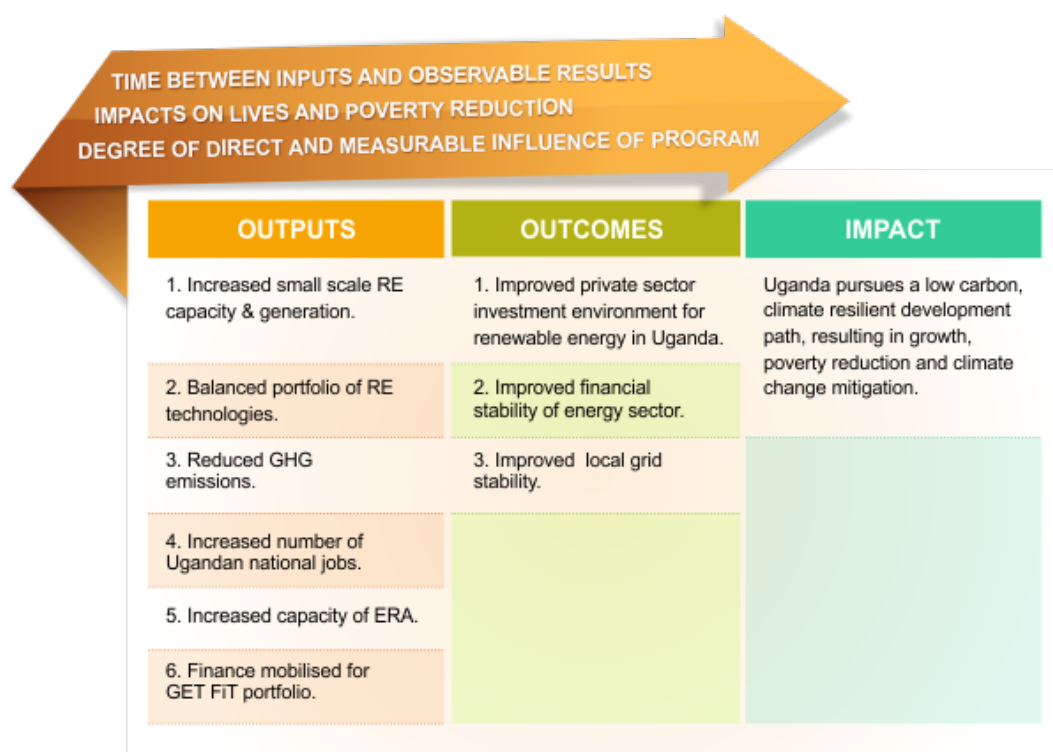


Table 3: Outputs, outcomes and impact of GET FiT

The design work of the M&E systems is still being finalized, with the specific baselines and time-bound targets currently being considered by the M&E consultant and relevant stakeholders. Nonetheless, the current log-frame is utilized below to demonstrate how the program is prioritizing the target results at the various levels and what early results are being achieved. Given the early stages of implementation, focus is placed on outputs and outcomes. As indicated here, the focus of the program has thus far been on ensuring a strong foundation and portfolio to provide prospects for successful achievement of the target results. The results to date should reflect this focus.

OUTPUTS			OUTCOMES		
Indicator	Target	Efforts and early results	Indicator	Target	Efforts and early results
1.1 MW installed	170	GET FiT portfolio now at 109 MW with third RFP for Q4 2014. Construction start on first project soon. 20MW expected from Solar Facility.	1.1 Number of commercial banks that invest in renewable energy with project finance.	3	All bagasse/biomass projects have commercial lending. 1-3 hydros likely. Considerable effort by Secretariat to bring commercial banks into the fold.
1.2 GWh delivered to national grid	830	GET FiT portfolio now at 601GWh/yr (est ave) + 30 GWh/yr for solar facility.	1.2 No. of development permits and generation licences issued by ERA.	N/A	licences approved in Q1 2014.
2.1 Number of technologies supported by GET FiT.	4	4 Techs now in portfolio – hydro, bagasse, bio and solar.	1.3 Occurrence of annual 'UETCL event of default'	None	N/A. WB PRG liquidity guarantee now available.
2.2 Number of sub-regions with GET FiT projects.	5	The current portfolio has projects located in 5 subregions.	1.4 Average time for PPA negotiation and signing.	3 mths	With standardized PPA in place first project took 0.5 days for initialling. No PPA yet signed. Interconnection a key risk that may delay.
3.1 Net change in GHG emissions (Cumulative MtCO2e)	TBD	Methodology TBD but very tentatively estimated at 350 TCO2/yr for currently approved projects.	1.5 REFIT adjusted to be cost-reflective (%).	100%	Adjustment in summer 2013 to est 92% specifically to allow for greater effect of GFPPM.
4.1 Number of direct national construction and O&M jobs created in relation to the power plants.	(3000)	Currently 12 projects all requiring labor force and contractors.	2.1 Subsidy paid (excluding capacity) by Ugandan Gov. for UETCL to cover thermal power use.	0	Indications that some fossil generation already to be dispatched in 2014.
5.1 Time taken by ERA to review generation licence for 1-20 MW RE application.	TBD	Unknown. However, GET FiT approved projects have received generation license already in 2014.	2.2 MWh purchased by UETCL from thermal stations.	(319)	Target based on Norplan model and proposed M&E methodology.
5.2 Number of REFIT tariff reviews taking place by ERA per year.	1 - TBC	REFIT reviewed in summer 2013 and TA being procured by Secretariat/ERA.	2.3 Cost reflective retail tariffs in place.	TBD	TBD. Automatic Quarterly Tariff adjustment now in force.
6.1 Private Finance mobilised for GET FiT.	TBD	All projects with some private equity contributions. Both bagasse projects with commercial finance. Dedicated efforts towards commercial banks.	3.1 % of time (in hours) local voltage level is outside Grid Code standards at local substations.	TBD	TBD.
6.2 Public Finance mobilised for GET FiT.	TBD	Significant expectations regarding DFI investment levels.	3.2 Load lost in MWh at local substation.	TBD	TBD.

Table 4: GET FiT log-frame showing status on overarching primary Program targets along with efforts made and results achieved so far

RISK MANAGEMENT

The M&E Consultant has prepared a “Risk Analysis and Management Monitoring Tool” (Appendix X). Going forward, this tool will be employed by the Secretariat in tracking and following up key risks. Since mobilization, the Secretariat has focused on management of the following risks:

Interconnection risk. Ensuring that the individual projects can interconnect to the grid and that the grid can evacuate the power from each of the projects to the demand centres involves significant coordination, funds and time. Given current constraints in the grid, this risk is significant. In the worst case, the projects will be constructed and UETCL will be stuck with “deemed energy” payments, which could become a major financial burden. This issue has been highlighted by KfW and GET FiT and ERA and MEMD have taken dedicated steps to address the matter. Specifically, a top level management meeting between ERA, UETCL, REA and UMEME is planned for May 2014 and is likely to result in a task force to address the issue of timely integration of the GET FiT portfolio into the national grid. Additionally, KfW has taken an active role in mobilizing funding for preparation and financing of the critical HV line in Eastern Uganda between Mbale-Bulambuli (key for evacuation of Siti I & I HPP and potential future generation projects in the Mount Elgon area). A feasibility study will be supported through a grant from the EU ITF and additional investment grants and loans will be sourced. Furthermore, technical assistance for ERA and UETCL in managing interconnection and grid integration issues related to the GET FiT portfolio are being discussed and development partners are being approached for additional funding.

Project-level technical risks. With the Implementation Consultant now mobilized, the technical risks and key follow-up points for each project, including e.g. compliance with IFC Performance Standards and interconnection, are being tracked and managed. The Secretariat has developed a comprehensive Project-tracker tool utilized also by KfW and ERA and MEMD staff which allows for continuous monitoring of critical issues for each project. This provides an opportunity to identify early on key challenges within all applicant or approved projects, and to monitor their progress throughout.

Considerable time used to achieve financial close and construction start. The approval of the Standardized PPA and IA should make an important contribution to preventing further delays. Additionally, the Secretariat has decided to initiate supervision visits to the most advanced projects, partly in order to increase pressure on ensuring progress. In addition to the project-tracker, the Investment Committee has endorsed the Secretariat's proposal for shorter and stricter time-frames following approval – or risk losing the GET FiT commitment.

Delayed implementation of the projects. Energy generation projects are generally prone to delays during construction. This can be due to capacity and financial constraints of the developer, faulty planning, but also adverse conditions outside of the control of the developer. Through the portfolio approach the impact of these issues on GET FiT is to some extent mitigated, but serious risks remain: Delays in commissioning of the individual projects will negatively affect the time bound objectives of GET FiT. On a financial management level, it will result in either a temporary build-up of cash and/or project-level disbursement beyond 2023. In the worst case, projects are not able to meet the required deadlines, as set out by either their award letter or their DFA and a decision is made to retract the funding commitment.

Weak capacity of developers. Several developers and/or major shareholders may lack competence regarding either hydropower or IFC environmental and social performance standards. To address this risk, all approved developers have achieved a minimum score on these issues in the appraisal process. Nevertheless this risk element remains to a certain degree, particularly with respect to IFC standards. The Implementation Consultant is now available for discussions with GET FiT developers, on an ongoing basis. Further, a dedicated one-day workshop with developers and their consultants regarding the topic of IFC Performance Standards is scheduled for June 2014.

Low number of sufficiently developed projects applies for support. The slight downward trend between round 1 and round 2 applications, both in terms of quantity and quality raises some concern. In order to have a realistic opportunity to achieve the overarching targets, the program is dependent upon a successful third and final RFP – targeting some 50 MW, with an ambition of a high biomass/bagasse percentage. To the degree project funding commitments from previous rounds needs to be reallocated (due to failure to meet deadlines), the ambition level will be even higher. As a response to these concerns, the third and final round will be carried out a full year after round 2 (instead of 7 months) and the announcement has already been communicated to the market. It is also expected that the E&S Workshop will make an important contribution to the quality of project applications.

Corruption/bribes. In general, the performance-based disbursement methodology under GET FiT reduces the risk for corruption or fraudulent behaviour. Further to requested declarations by developers during the tender process, the developer financing agreements under GET FiT, foresee a range of termination and repayment rights in cases of any misconduct and of material deviations from statements/ information or documentation submitted and subject to the application process. The Implementation Consultant will visit project sites bi-annually and assess the procurement process and construction progress for such deviations. GET FiT also provides for a grievance mechanism for (anonymous) complaints by the public through the GET FiT.

Political and cross-border risks. Two of the largest projects in the GET FiT portfolio (Kikigati SHP and Kakira bagasse plant) are currently plagued by critical “external” risks that threaten their viability as eventual GET FiT supported projects. Given their combined capacity of some 36MW, this is a critical risk for the portfolio and eventual results. Both projects are actively being followed up and at the point where the committed funds are required for other projects, rescindment of the GET FiT commitment will be strongly considered. Both developers have been informed about this possibility.

OUTLOOK FOR ACHIEVING TARGET RESULTS

GET FiT maintains ambitious time-bound targets, now underpinned by a comprehensive M&E framework. Further these ambitious targets are being approached through a relatively innovative results-based financing mechanism and a broad partnership. As highlighted above, there are uncertainties, obstacles and risks that will have to be actively managed and others which are out of the control of the program.

The GET FiT team is proud of the results achieved this year particularly related to building of the portfolio and improvements to the enabling environment. Notably, the current 103 MW portfolio combined with a target of 20MW solar bode well for an eventual portfolio of 170 MW. Further the disbursement projections confirm this potential.

However, projects do not progress as quickly as one might have expected or hoped. Following some delays in finalizing the standardized PPA and IA, only a few project developers have made significant progress on final negotiations. Notably, as this report went to press, no project has yet broken ground, although several are expected to do so in Q2.

The coming year will be critical in terms of the potential for meeting the time-bound targets of the program. Four specific developments will be critical in the coming year.

First, several projects are scheduled to achieve financial close and construction start before the end of 2014.

Second, the developments related to the Kikigati and Kakira projects, which represent some 35% of the project funding commitment in the current portfolio, will have important implications for the targets and round 3 RFP.

Third, the result of the solar tender will be of great interest and have important implications as to the installed capacity that results from the GET FiT program as a whole.

Fourth, and finally, the competitiveness and success of the round 3 RFP will determine the ultimate maximum potential results – related to installed capacity (MW) and production (GWh). The development of these four factors over the next year is expected to be of decisive importance towards meeting the targets of the program.

KEY FOCUS AREAS OF THE PROGRAM IN THE COMING YEAR

Ensuring progress for the current portfolio during the coming year will be critical in terms of maximizing the economic benefits of the program and achieving the time-bound target results of the Program. The key focus areas of the Program will be (not exhaustive);

Facilitating progress on existing portfolio, in dialogue with developers and authorities, including signing of remaining DFAs and following up of conditions precedents for each project.

Initiation of supervision visits and follow-up of those projects starting or nearing construction start.

Launching and implementation of a highly competitive and successful GFPPM Round 3 RFP.

Facilitating dialogue, coordination and concrete solutions to the challenge of interconnection and integration of the GET FiT portfolio into the national grid.

To the degree possible, **facilitating IA and PPA negotiations**.

Follow-up of implementation of the various TA Facility components, including the up-coming REFiT review.

Potential commissioning reports for the two bagasse plants, assuming progress on both.

Implementation of the **disbursement management system**.

Carry out and complete **Solar Facility tender** – targeting 20MWp.

Implementation of **M&E systems**.

Risk management, particularly the risks associated with Kakira and Kikagati.

THE FUTURE FOR THE GET FIT MECHANISM

Given the emerging success of the GET FiT Program in Uganda, KfW and selected donors are considering opportunities and means for replication/adaptation in other countries in and outside of the region. During the year, reconnaissance and information sessions by KfW and the Secretariat in Kenya and Zambia revealed a high level of interest among key decision makers, as well as several specific opportunities for intervention. Initial discussions with stakeholders in Ghana also revealed some interest and opportunities to consider. Some consideration has also been made regarding Tanzania.

While the build-up of actual production stimulated by GET FiT will take several years, there is no question that the program has made significant positive contributions to the enabling environment for new small grid-connected renewable investments in Uganda. It is for this reason that there is a strong case for taking the lessons learned and rolling the program out to other appropriate countries that express and demonstrate commitment to the overarching goals of the program. In considering the roll-out to other countries, a few specific considerations will have to be carefully assessed;

- i. Which country/sector characteristics should one look for/look to strengthen in order to ensure a strong foundation for time-bound success of the GET FiT approach?
- ii. To what degree can one leverage the successful adaptation of the GFPPM to a reverse solar auction and consciously consider other iterations of the top-up, tailored to the policies and priorities of other candidate countries?
- iii. What policy and implementation partnerships and set-up should the program look to achieve to provide the appropriate basis for successful implementation?

The set-up and implementation of the Program in Uganda has required considerable thought, effort and coordination. It is clear that the results based nature of the program implies careful design and management consideration. KfW, the Secretariat and interested Development Partners will continue the discussion of further roll-out of this concept, as lessons and results emerge from the program in Uganda.



ABBREVIATIONS/ACRONYMS

BMU	Federal Ministry for the Environment, Nature Conservation and Nuclear Safety
BMZ	Federal Ministry for Economic Cooperation and Development
COD	Commercial operation date
DECC	Department of Energy & Climate Change
DFA	Developer Finance Agreement
DFI	Development Finance Institution
DFID	Department for International Development
ERA	Electricity Regulatory Authority
GFPPM	GET FiT Premium Payment Mechanism
GHG	Greenhouse gas
GoU	Government of Uganda
IA	Implementation Agreement
IC	Investment Committee
IDA	International Development Association
IFC	International Finance Corporation
M&E	Monitoring & Evaluation
PPA	Power Purchase Agreement
PRG	Partial Risk Guarantee
REFiT	Renewable Energy Feed in Tariff
RFP	Request for proposal
TA Facility	Technical Assistance Facility
UETCL	Uganda Electricity Transmission Company Limited
WB	World Bank