

# **PUBLIC PRIVATE PARTNERSHIP TO REINFORCE THE EFFECTS OF PUBLIC POLICIES**

By

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# Outline

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- Energy Efficiency Policy of Nigeria
- Challenges of PP in Africa

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- EE potential areas for PPP intervention
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### **The way forward**

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# Introduction

- ⌘ Africa has large and numerous forms of energy resources, little of which has been translated into useful form.
- ⌘ Today, the issue is not only about access to energy but its acceptability is paramount, which has to do with its environmental friendliness.
- ⌘ Harnessing the available energy resources using energy efficiency best practices and technology guarantees both accessibility and acceptability.
- ⌘ However, smooth and speedy implementation of EE programmes requires good policy and funding; as for policy, only very few countries in Africa have energy efficiency policy and many government may not have the required capital.

# Introduction Cont'd

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- ⌘ Indeed, financial needs in the Africa energy sector are huge and require the creation of an enabling environment for both domestic and international investors.
- ⌘ To this end, African Governments should be required to carry out suitable energy policies adapted to the context of globalization
- ⌘ These policies need to be coordinated both at regional and continental level and must aim at setting up and strengthening cooperation and partnerships.
- ⌘ The reform must better reflect local realities at the political, economic and social levels especially, as well as the feasibility of the formulas for disengagement in terms of risk sharing between the private sector and the state.

## Introduction cont'd

On this basis the paper will:

- Examine Objectives of Public Policy of the energy efficiency (EE) and how PPP can facilitate the attainment of this Policy.

- It is believed that sound understanding of PPP vis-à-vis EE policy will assist in faster penetration of the EE.



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# PUBLIC POLICY

# Public Policy (PP)

- **PP** is the course of action or inaction taken; regulatory measures, laws, programmes and funding priorities promulgated by a governmental entity or its representatives with regard to a particular issue or set of issues.

## Objectives of Public Policy

- Is all about human well being and flourishing:
- ✓ guarantee of common welfare and elimination of injuries to the society
- ✓ not just about economy, monetary values, efficiency
- ✓ but it encompasses fairness, environmental quality, freedom

# Overview of EE Policies in Africa



It has been observed that very few countries in Africa have initiated policies and programme to improve EE:

- Ghana has EE policy with an elaborate EE programme and institutions that promote EE;
- South Africa has an energy management programme at the University of Cape Town and intends to establish an EE agency;
- Nigeria has EE in its National Energy Policy, yet EE has not been fully integrated into the countries energy development strategies. Recently, the FGN established NCEEC under ECN at the University of Lagos
- Senegal, Niger, Tunisia, and Egypt are reported to have initiated energy management programmes.

# Energy Efficiency Policy of Nigeria



## POLICY

- i. Energy **conservation** shall be promoted at all levels of exploitation of the nations energy resources
- ii. The nation shall promote the development and adoption of energy **efficient** methods in energy utilization

## OBJECTIVES

- i. To ensure the prudent exploitation of the nations non-renewable energy resources
- ii. To enhance energy security and self-reliance
- iii. To reduce the cost of production of energy-dependent goods and services
- iv. To reduce adverse impacts of energy utilization on the environment
- v. To increase the proportion of hydrocarbon resources available for specific applications such as industrial feedstock and for export.

# Energy Efficiency Policy of Nigeria cont'



## STRATEGY

- i. Ensuring strict adherence to the regulations of petroleum industry and relevant agencies on energy resource exploitation and the environment
- ii. Providing institutional arrangements and incentives for the promotion of energy conservation and the use of energy efficient methods
- iii. Developing building codes so that buildings are designed to take advantage of climatic conditions in order to reduce energy consumption
- iv. Ensuring the importation of the more energy-efficient equipment and machinery
- v. Reducing energy consumption by improving mass transportation and communication systems all over the country
- vi. Promoting R & D activities in energy conservation and efficiency ...
- vii. Encouraging the Production and use of improved and more efficient cook-stoves
- viii. Taking appropriate measures to reduce energy storage, transmission and distribution losses
- ix. Promoting public awareness about the benefits of improved energy efficiency

# Challenges of PP in Africa

- Governance
- Policy inconsistency
- Bureaucracy
- On job training and retraining, and continuous education
- Over costing of projects hence, wastefulness resources
- Project implementation and monitorig
- Maintenance culture
- Low level of infrastructural development
- Socio vice such as corruption, nepotism
- Passive citizenship partly due to low literacy level
- Improper understanding of Governance by the citizens



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# ENERGY EFFICIENCY

# Africa Energy Situation

- Africa is one of the world's less energy efficient regions.
- It is estimated that up to 40% of the energy input in production processes across the continent is wasted.
- Most of the African countries are using less efficient equipments, notably in their industry, transportation or household sectors.
- This inefficient utilization of energy results in to inadequate supply of energy by many countries thereby putting the continent in darkness.

# AIRIAL VIEW OF THE WORLD AT NIGHT SHOWING AFRICA IN DACKNESS



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What's wrong with this picture?

# Penetration of EE in Africa

## Benefits of EE

Africa countries have potential to achieve significant gains through implementation of EE:

- Improved EE would delay the need for capital intensive investments in energy supply in addition to the potential savings in fuels
- With the current unprecedented global energy prices, sector restructuring and utility deregulations will be forced to acquire new efficient technologies
- Most energy-efficient technologies are cost effective from the perspective of the life cycle costs of technologies
- Low industrial activities in the continent allows quick shift to Energy efficient technology.

# Challenges of EE penetration

## Energy Education, EE Expertise and Technology

- Very few specialized energy courses in our tertiary institutions.
- Lack of technical expertise
- Energy labeling and standardization of appliances/equipments
- Technology transfer and acquisition
- Localization of EE technology
- Face out use of old, obsolete equipment, technology in all the economic sectors

## Funding and Market

- Effective electric power tariff system due to heavy government subsidies
- Economic sabotages and corruption;
- Low income vs High initial costs of EE and RE technologies
- Difficulty in accessing bank loan due to long payback period of EE technology
- Securitization of Investment and transparent business practices
- Business friendly legislation
- Poor infrastructure: power and transportation.
- EE awareness is low in Africa among policy makers, energy suppliers and consumers

# Challenges of EE penetration cont'c



## Legislation, Governance or Political will

- Low EE policy and legislation activism
- Regulations on EE Tariffs, Incentives, Taxation, Custom duties
- Consistency in Policy and its regular review
- Monitoring and evaluation of policy and program implementation
- Core reform of electricity sub sector and its regional integration
- Collaboration among relevant Ministries, agencies at national and regional levels
- Sustainable political will at all tiers of government
- The law makers must learn faster and work harder

## The Economic Sectors: Industrial, Residential, Trans...

- Upgrading of the existing residential and commercial buildings to become energy efficient
- New Building: Introduction of mandatory energy efficient building code
- Equipment and conversion of old technology lines and process to become energy efficient complaint
- Modernization of transportation network, equipment and modes; face out use of old transportation media
- Eliminating energy waste streams in industries and nonchalant attitude to energy use from the side of the workers

# Challenges of EE penetration cont'c

## Enlightenment, Socio-cultural habit...

- Life style of the affluent few is not energy efficient
- Low Literacy level makes EE awareness creation demanding
- Lack of proper understanding of ENERGY and its uses
- EE is still relatively new hence, the resistance to its penetration
- Large population, remoteness of rural settlements

## International trade/globalization (globalism) and deployment of RE technology

- Importation vs protection or development of local EE products
- Localization of EE Technology; transfer and acquisition of Technology
- Effective deployment of RE technologies. Its abuse may result to RE-phobia



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# PUBLIC PRIVATE PARTINASHIP

## Public-Private Partnership



Achievement of the Objectives of PP in the area of EE can be fast-tracked and sustained through PPP!

# Public-Private Partnership Cont.

- Public-Private Partnership describes a government service or private business venture which is funded and operated through a partnership of government or its entities and one or more private sector companies for the purpose of providing public infrastructure, community facilities and related services. These schemes are sometimes referred to as PPP or P<sup>3</sup>

## **The formal partnership arrangement:**

- ✓ delineates each partner's roles and responsibilities;
- ✓ states the level of investment and risk of each partner, and;
- ✓ describes how financial and non-financial benefits will be distributed between the partners.

## **The Objectives**

- The basic purpose of partnering is “to take advantage of the potential for all parties to gain greater benefit than they could on their own.”
- Other objectives include:
  - ✓ to increase jobs,
  - ✓ to enhance the numbers of employers in a region,
  - ✓ to revitalize the physical assets of an area.
  - ✓ PPP is often portrayed as ‘win-win’ situations
  - ✓ PPP contribute to poverty reduction and sustainable development’

# PPP in Local Development: From Isolation to Collaboration



Government Sector



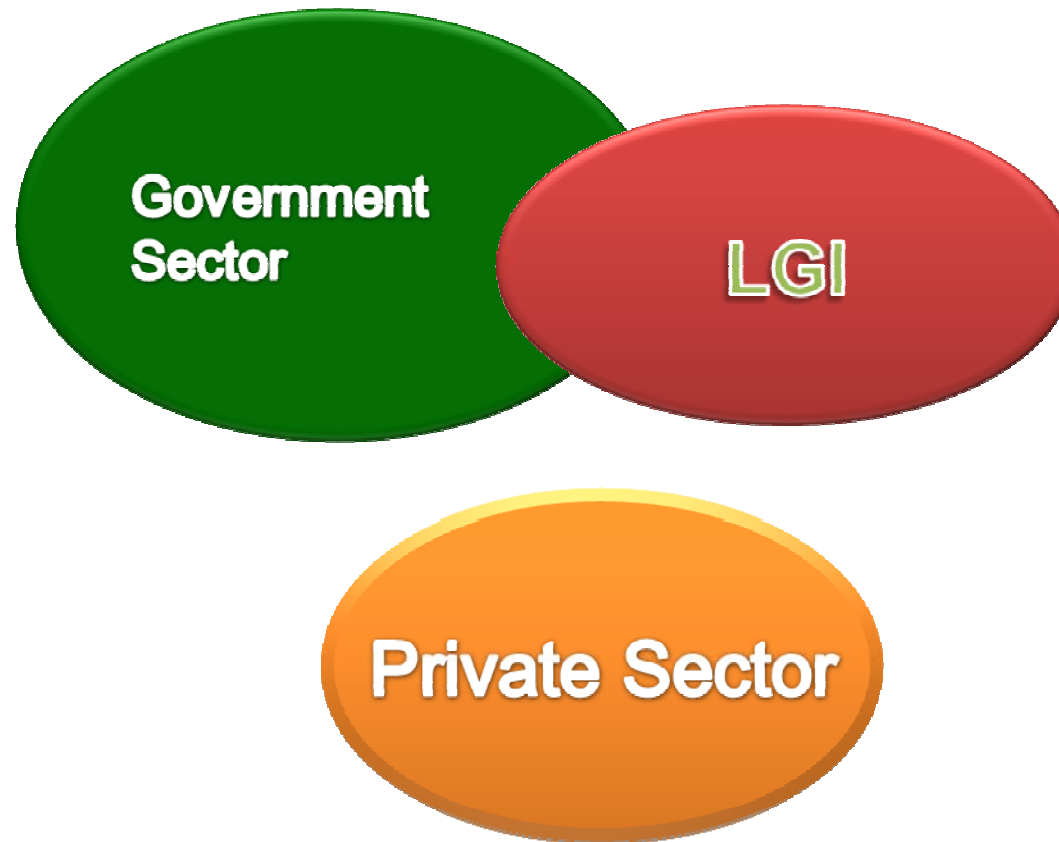
Local Govt. Institutions



Private Sector

Currently this is the dominant SITUATION: **Working in Isolation**<sub>22</sub>

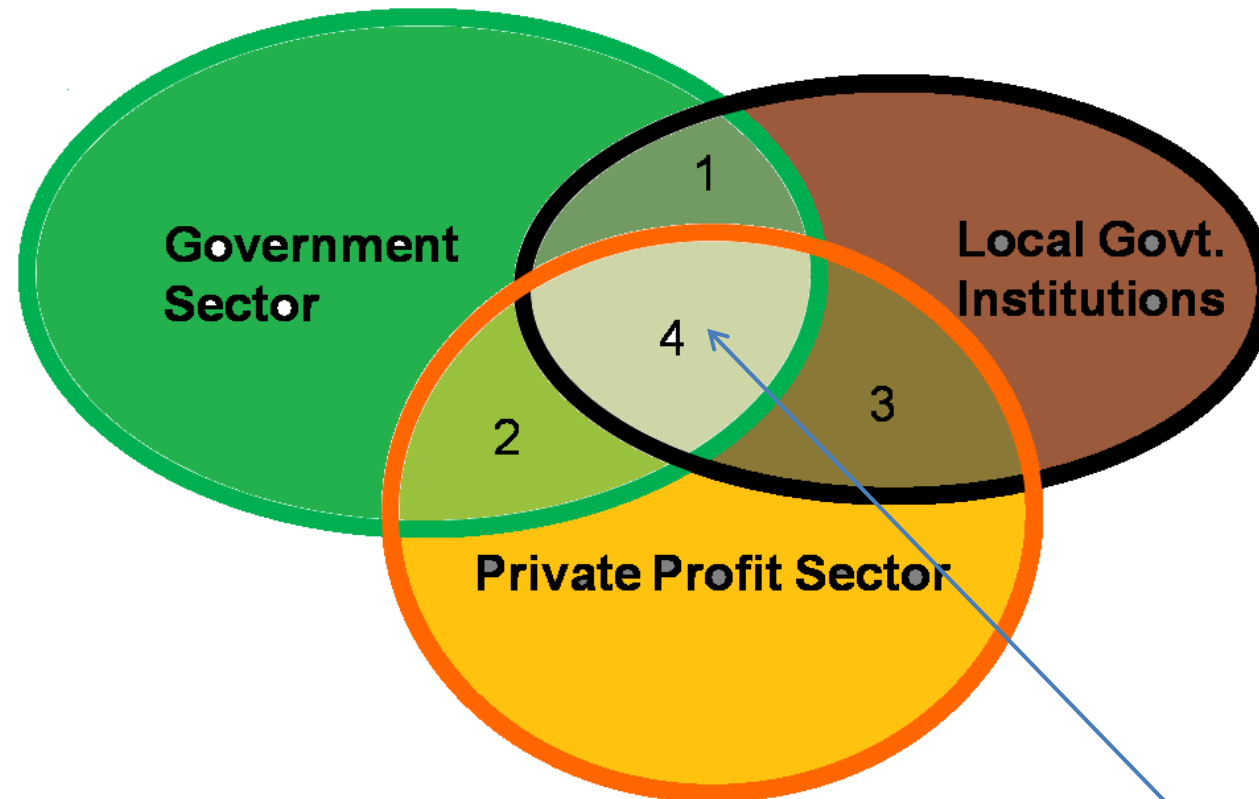
## PPP in Local Development: From Isolation to... cont'd



**Evolving partnership**

# PPP in Local Development: From Isolation... cont'd

## Desired Situation: Working in Collaboration



4 – PPP

# Types of PPP

PPP is categorized based on the method of Public Sector financial commitments. Below are some examples, that can be applied for EE penetration in Africa:

🇳🇪 **Tax revenue:** the government uses tax revenue to provide capital for its part of investment, with operations run jointly with the private sector or under contract.

🇳🇪 **The private finance initiative:** In this case, capital investment is made by the private sector on the strength of a contract with government to provide agreed services.

- Another type is called “**Transfer of existing assets**”. Here, the Government’s contribution to a PPP is in kind.
- Provision of capital subsidy: In projects that are aimed at creating **public goods** like in the infrastructure sector, the government may provide a capital subsidy in the form of a one-time grant, so as to make it more attractive to the private investors.
- In some other cases, the government may support the project by providing **revenue subsidies**, including tax breaks or by providing guaranteed annual revenues for a fixed period.

# Benefits of PPP

- Utilization of sectoral core competency
- Increase in fiscal performance and control of economic value
- Contributes to local economy
- Effective and better public services
- Cost competitiveness
- Risk sharing
- Promotes local employment opportunities
- Fulfillments of obligations of state and private sector

# Features of a Partnership



- The three main components of the partnership are:
  - Policy
  - Governance
  - Finance

# Constraints to Partnership



- Constraints against the partnership can be viewed from three perspectives:
  - The public sector
  - The lending agencies
  - The private sector

# Global response to PPP

- In 2002, at the World Summit for Sustainable Development (WSSD) in Johannesburg, South Africa, United Nation committed itself to promoting Public-Private Partnerships (PPP) for sustainable development.
  - The UNDP Commission for Private Sector Development has argued that PPP can facilitate access to broader financing options, assist skill and knowledge development, and make possible sustainable delivery of basic services, particularly energy and water.
  - WEC study for sustainable energy development for Africa titled “Deciding the Future: Energy Policy Scenarios to 2050. Africa Region Report” recommends Lion and Giraffe Scenarios and in both cases Cooperation (PPP inclusive) is High!
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- ❖ Energy is the driving engine of sustainable development and cut across social, economy and environment dimensions of SD, now and in the future.
  - ❖ Energy development can become sustainable if and only if **Energy Efficiency** policy and measures are observed at every level of its exploration and exploitation.
  - ❖ Before, it was the Government itself trying to deliver the objectives of PP
  - ❖ Now the Dawn of P<sup>3</sup> has come to strike boldly!

# Global PPP Experience

- England and Ireland: Health, Education, Transport
- Canada: Road, Health, Other Public Services
- Australia: Inter City Tunnels
- Denmark: Public Bus Service
- India: Airport Privatization, Roads (highways)
- Japan: Social Service and Shelter Houses
- USA: Parks and other social services
- Nigeria: Transport (air, rail and airports), Health, Power (IPP, Distr., Gener. Etc)

# Global PPP Experience



UNIDO/UNEP GEF Project-Generation and Delivery of Renewable Energy Based Modern Energy Services in Cuba at the total cost of \$ 16.4 million with GEF Grant providing \$ 5.337 million.

Project components

- Setting up of 4 Business Models on biomass harnessing, biomass power generation, wind energy and process heat for industry
- Building up of national manufacturing capacity in renewable energy sector
- Setting up of a RRMF fund for promotion of RETs
- Strengthening policy planning mechanism and partnerships in the RE sector

## PPP Experience in Africa

- UNIDO/UNEP GEF Project – Renewable Energy Based Electricity Generation for Isolated Mini-Grids in Zambia
- The Kelvin Power Plant, Johannesburg
- The Energy Foundation Ghana. It is a non-profit, PPP institution, devoted to the promotion of energy efficiency and renewable energy, as a key strategy to managing Ghana's growing energy needs in a sustainable manner
- The on-going pilot project in efficient lighting (ECN/ECOWAS/CUBAN Government – 1,000,000 CFLs Replacement Programme) in residential buildings may pave way for PPP in Nigeria.

# African Partnership for Sustainable Energy Development

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- ❖ African leaders have launched the New Partnership for African Development, a strategic framework and plan of action to meet the challenges of Africa's sustainable development.
- ❖ The programmes and strategies of NEPAD are focused on regional and continental integration and designate energy as one of the basic development levers and catalysts.

# African Partnership for Sustainable Energy Development Cont'd

- ❖ The African Energy Commission (AFREC) was also established in 2001 with the following tasks and functions:
  - ❖ The elaboration and adoption of policies, strategies and plans for energy development;
  - ❖ The identification and encouragement of large integrating energy projects;
  - ❖ The elaboration of programmes for human resources development, particularly through personnel training and education programmes;
  - ❖ The promotion of inter-Africa trade of energy products.
  - ❖ Setting up an energy data bank and simulation of energy information among African countries.
  
- ❖ To achieve sustainable energy, concerted effort needs to be in place through African partnership towards promoting energy efficiency programmes.

# Common Misconceptions about PPP

- PPPs are the same as privatization
- By entering into PPP, local government loses control over the provision of services
- PPP apply only to infrastructure projects
- The principal reason for local governments entering into PPP is to avoid debt
- Government wants to wash hand from the obligation of providing public services
- The quality of service will decline under PPPs
- The cost of service will increase in an effort to pay for the private partner's profit
- Local government can finance the cost of services at a lower cost than the private sector
- There are only two partners in a PPP

# Challenges of PPP Intervention

PPPs has great potential for increasing investments in the energy sector at a time when most African government are experiencing problems in mobilizing adequate financial resources for the required investments, however a number of challenges exist:

## **Legislative and Institutional Framework**

- Economic and Energy policy of the country
- Taxation policies of energy services and technology
- PPP policy and program of the Government
- Institutions mandated for local development

## **Governance**

- Role and responsibility of Government
- Respect of rule of law
- Poor track record of African governments

## **Finance**

- Energy financing situation
- Energy sector: Foreign investment policy

## **Others**

- Efficiency concerns of private entities, will lead to job losses, an issue that has serious political connotations for most governments
- Increased corruption (through regulatory capture and other avenues) due to the revenue potential of the energy sector
- Impact of PPPs on service quality as providers strive to keep costs down

# The Way Forward

- Reliance on PPPs for accelerated penetration of EE global best practices and technology, but public sector to also continue.
- Creating supportive legislative frameworks for maximizing private investment including FDI in EE.
- Standardize and simplify documentation and other bureaucratic processes so as reduce cost of doing business and accelerate investment flows.
- Leveraging budgetary resources and multi-lateral assistance for PPPs.
- Accelerated roll-out of PPP EE projects.
- Political will: Governments clearly defining their own objectives, roles and responsibilities in promoting PPPs
- Defining the roles and responsibilities of potential private partners
- The legal and regulatory framework should create favorable market conditions and provide adequate incentives for investors through sensible and fair rewards
- Legal instruments must be available, that provide for fair and transparent partner selection process, as well as fair and transparent dispute resolution
- Continuous communication and learning among stakeholders should also be encouraged to ensure that the Africa energy sector is competitive and attractive.

# Conclusion

- Generally, energy efficiency awareness and consciousness in Africa is low, hence EE has not gotten required attention, but the potential and need for it is very high.
- A lot of work has to be done by the government and the law makers in putting in place appropriate energy and energy efficiency policy and legislation.
- Adequate measures also need to be taken to ensure proper funding and project implementation and it is in this area that PPP can play a very vital role.
- South Africa and Ghana have taken some good initiatives and if other countries join in the race, the future of energy efficiency in Africa will be very bright

Thank you