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The commercial case for Power Purchase Agreement (PPA) transparency

Transparency is usually in the public interest. South Africa's open and competitive power procurement programme has been a real success, getting capacity built quickly and with costs falling over successive bidding rounds. The use of standardised and public contractual terms had a lot to do with its success.

The Energy for Growth Hub has been making the [public-interest case](#) for disclosing the terms of power purchase agreements (PPAs), arguing it will reduce transactions costs, improve overall sector governance and reduce fiscal risks, and ultimately deliver cheaper power.¹

But if you are a private infrastructure project developer or financier, should you welcome public disclosure of your contractual terms?

South African renewables procurement is both transparent and highly competitive, and its transparency was no doubt part of what has made it so competitive. Private business might not welcome the highly competitive aspect, because competition puts pressure on profit margins, although those businesses who possess a competitive advantage should prosper. But although transparency should foster competition, greater disclosure may also be introduced in markets with different procurement practices (feed-in tariffs, bilateral negotiations, solicited bids). Would that help or hinder developers and investors?

The buyer decides on disclosure

A point to make before proceeding is that disclosure should be at the behest of the buyer. There is an argument that DFIs ought to try and impose minimal disclosure requirements. But even in markets where suitable commercial finance is in short supply and development finance is needed, it is not easy to insist on something if the buyer does not want it, when other DFIs will supply finance without imposing that condition. That problem would lessen if every DFI committed to minimal disclosure, but that is a difficult coordination problem (and it would still cause problems when co-investing with private investors).² Whereas if the buyer wants disclosure, disclosure they shall have.³

- 1 Here is [an overview of their work](#), a transparency monitoring site [PPA Watch](#) and a [series of interviews](#)
- 2 Today the MDBs and western bilateral DFIs are by no means the only suppliers of development finance.
- 3 In 2024 Ghana launched [a public registry of PPAs](#). Ghana is now launching a portal that gives public access to contracts.

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Practical thinking on investing for development



Incomplete information creates trouble

When contracts are undisclosed, bits and pieces of information are either announced or leak out (usually the tariff) and sow confusion. A minister who hears another country got a tariff of 4 cents a kwh is going to want the same, and that could either throw a spanner in the works of projects in development or create pressure for renegotiation of recent agreements. Some countries still procure power by setting a feed-in tariff, and if that is set too low then nothing gets built.

There is a lot of detail behind a tariff. Some elements are easily discovered (what technology is being used in what country with what risk rating) but there are a few things that are not always disclosed and which can explain a lot: who had to buy the land?⁴ Who must pay for connection to the grid?⁵ How long is the contract?⁶ What happens at the end of the contract?⁷

If the minister wants a tariff of 4 cents, then the minister may need to supply the land and build the transmission line. Without knowing these basic project attributes, it is impossible to understand a tariff.

What about disclosing financial details? There is justifiably a great deal of interest in the cost of capital in energy projects across the developing world. Sometimes a low tariff was only possible because financing was supplied on concessional terms, and unless that is explained it will become a misleading benchmark. The disclosure incentives for project developers and financiers become a little more mixed here, however. A project might be priced to deliver, say, a 16% return on equity, but project delays and cost overruns can easily wipe that out.



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⁴ Buying the land and securing the necessary permits.

⁵ That can be split into any requirement to strengthen of long-distance transmission and more local grid connection. In the South African program, the developer is responsible for obtaining a grid-connection agreement, undertaking the necessary studies, and paying the associated connection costs. Eskom undertakes the technical studies and determines the required network works.

⁶ The length of a PPA exhibits the same sort of total cost versus affordability trade-off as a mortgage: lengthening the repayment period will cut monthly payments but result in higher overall interest payments. In the same way, electricity tariffs can be lowered by lengthening the terms of the PPA and the spreading underlying debt repayments over a longer period.

⁷ If the contract is Build-Own-Operate-Transfer, then the developer must recoup costs and make its profit over the life of the PPA, but if the developer retains ownership after the PPA has expired and can continue to generate earnings, that can feed back into a lower tariff during the initial PPA.

Some commercial details – let’s say a \$3m payment to the developer upon achievement of a project milestone – might look outrageous in the public eye whilst simultaneously being not enough for the developer to survive. People will see the payments made for projects that go ahead, but those payments must also cover the costs developers incur on projects that flounder, which people won’t see. Big developers, such as Engie, Scatec and Total, have pulled back from the African renewables market, outside northern Africa and South Africa, because realised returns are too low.

Lenders may find themselves either being accused of offering unjustified concessions or of profiteering (possibly of both).⁸ Banks do not like being drawn into political fights. Other cost drivers, such as how difficult it is to get construction equipment onto site, and hence how much construction costs, are important but hard to communicate (costs can be disclosed but the underlying explanation is a narrative).

Some of the market participants we spoke to before writing this were in favour of full transparency. They would like to see open books and expect to benefit from buyers being able to see what good looks like. In some markets, the realised return on developer equity is too low and open books could expose that. Greater transparency could help normalise returns to international benchmarks, and (they argue) lenders are capable of justifying their pricing.

Others are more cautious, especially in less commercially appealing markets that cannot follow South Africa and make a success of competitive auctions. They point out that project development takes a long time and can easily fall apart.⁹ In more febrile political environments, people will find a headline-generating paragraph to use as a weapon. They urge caution about what is disclosed, and when.

But if disclosure decisions – content and timing – are in the hands of the buyer, that could help minimise those risks. Basic information could be disclosed, after the contract is awarded, for example.¹⁰ If the government is worried about being accused of overpaying, for example, being able to say the PPA includes land acquisition and transmission costs, whereas comparators do not, should help. Any disclosure might draw attention but if political actors really want to stir up trouble, refusing to disclose information about PPAs will probably not stop them.

The extractive industry went through a similar debate about the Extractive Industries Transparency Initiative. Although adoption is not yet universal, it is now widespread and there is evidence that membership makes a country more attractive for investment and also reduces the frequency of protests around mines.¹¹



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⁸ In some markets, the process starts with a tariff that must be met if any project is to go ahead, and lenders must then decide whether they are willing to supply finance on terms that will work with the tariff. DFIs, with a mandate to help countries decarbonise, might choose to supply finance on more favourable terms than commercial investors would, but it would be wrong to see that as crowding-out. Without finance on terms that can achieve the required tariff, the country would do something else (probably continue to burn coal, build more gas).

⁹ They also say that greater transparency is not the priority. Capacity building inside ministries, including donor funding for expert advisors, is more important, as is better economy-wide energy system modelling and planning.

¹⁰ Basic information would be the parties involved, the tariff, contract duration, grid connection arrangements, land acquisition responsibilities, and so forth. Details of how loans are priced, how much money the developers stand to make and how much is being paid for construction would represent a more advanced level of transparency.

¹¹ See: [A safer bet? Evaluating the effects of the Extractive Industries Transparency Initiative on mineral investment climate attractiveness](#), [Concession Stands: How Mining Investments Incite Protest in Africa](#) and [Identifying key enabling factors for successfully leveraging the EITI process to improve investment climate and anti-corruption](#)

One of the more frequent bones of contention is simply that agreements that were reasonable at the time now look expensive, because technology costs have fallen. A similar problem arises when a developer is paid to build under a capacity payment arrangement, and that capacity is seldom used. In both cases, if investors' money was spent (with costs as they were at the time) and the initial agreement was reasonable, it should not be reneged upon. But the political process is not always going to see that logic, and it is not obvious that greater transparency would help there.

Capacity payments are an example of how transparency must be accompanied by understanding. Power systems need reserves and backups that are, by design, seldom used, but the cost of the investment in the generation capacity must be covered. If the high amount paid per kilowatt hour used under a capacity contract is disclosed, that is only going to cause trouble if people do not understand what they are looking at.

Stop re-inventing the wheel

A set of differing individually negotiated but transparent agreements probably will not much improve a market. It would be far more helpful if governments could commit to PPA transparency allied to a program of standardisation and repetition, to reduce transaction costs and build confidence and familiarity. That does not necessarily mean going all the way to the South African model – it would still help in markets where tariffs are set by the government or where bids are sought against a draft PPA. Greater transparency and standardisation would also help buyers of infrastructure assets in secondary market see what they are buying.¹²

There is an inherent cost of negotiating a PPA afresh and once done, developers don't want to share all their hard work with others free, but the creation of standardised PPAs is the sort of public good that DFIs can help finance, as with [Zambia's Get Fit programme](#), for example.¹³

In addition to disclosing information, it would also be helpful if governments and other stakeholders understood how tariffs are built and what makes a project bankable. In some markets, agreements are put together from 'building blocks' that pass-through to tariffs, or have some aspects fixed at points in time whilst others are allowed to respond to changing market conditions (for example, if global interest rates move after the contract is awarded). Disclosure can be accompanied by explanation and, in some cases, capacity building and expert advice to governments.

Intergovernmental processes, such as the G20 and G7, often have workstreams that are dedicated to infrastructure development, which would seem like the natural fora to push this agenda. Handled with care, it is an agenda that commercial actors should welcome.



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¹² See the [Secondary Market Vehicles in EMDEs](#) for discussion of their importance to the African infrastructure market.

¹³ As markets evolve towards "merchant" models, where generators sell to the grid at a spot price without a PPA, disclosure will become less relevant. Disclosure is also less relevant for agreements between private parties, such as a power developer and a corporate customer.

This blog is authored by our Head of Development Economics, and covers issues related to development finance. These are personal views and do not necessarily represent the views of British International Investment.

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