CLIMATE INVESTMENT FUNDS

SREP/SC.IS.3/Inf.4
July 25, 2013

Intersessional Meeting of the SREP Sub-Committee
Brussels, Belgium
July 25, 2013

COMMENTS ON TANZANIA'S INVESTMENT PLAN SUBMITTED BY SUB-COMMITTEE MEMBER FROM SWITZERLAND

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER

State Secretariat for Economic Affairs SECO
Economic Cooperation and Development
Contribution to EU enlargement / Cohesion

24 July 2013

SREP Investment Plan for Tanzania

We thank Tanzania for a well prepared Investment Plan.
We understand and value the efforts that were made to produce a document that addresses the needs of the country and is consistent with the strategies already pursued.

We have the following questions (Q), comments (C) and recommendations (R):

1. (C) We appreciate a well balanced allocation of SREP funds between one large grid-connected geothermal development project and a program to apply renewable energy to rural electrification, using mini-grids (up to 10 MW), micro-grids and sustainable solar market packages (SSMP). We believe that this proposed mix correctly addresses the challenges facing Tanzania in relation to both, access to sustainable energy and productive use of sustainable energy.

2. (C) We noticed the very high ambitions regarding the increase of per capita energy consumption (+450%), the annual electricity output from renewable energy (+540%) and the increased investments (USD 1 billion) until 2020. We would like to have an appreciation of the realism (feasibility) of these ambitions from the Government of Tanzania (GoT) and the MDBs.

3. (C) Regarding the financial plan, we noticed the very high ambition of Tanzania regarding the leverage of SREP funds (13:1) and in particular of private sector equity and commercial loans, in comparison to the investment plans of Kenya and Ethiopia, for whom the SREP leverage factors are 8.4 and 8.9. We believe that the higher leverage factor implies a significantly higher risk regarding the fulfillment of the investment plan (effectiveness and sustainability).

4. (C) We also noticed that the MDB share in the total proposed investment for Tanzania is only 13%, vs 35% in Kenya and 41% in Ethiopia. The MDBs are the key partners of the SREP (pilot) countries in the implementation of their investment plans. Their tendentially lower engagement in Tanzania further accentuates our risk perception regarding the fulfillment of the investment plan.

5. (C) Finally we also noticed the very small share of the GoT in the overall investment plan. This raises the question of the GoT's dedication to the scaling-up of renewable energy vs other energy programs (e.g natural gas development).

6. (C) Our comments (2, 3 and 4) are even more valid for the geothermal development project. Regarding this component only, the SREP leverage factor is over 20:1 and the MDB's share is only 8.4%. In the geothermal projects of Kenya and Ethiopia, the MDB's share in the total investment is respectively 39% and 26%.

7. (R) In order to reduce the perceived risks described above, we recommend that the GoT and the MDBs explore the possibility to increase their respective shares in the proposed investments, notably for the geothermal project. We would also welcome more detailed exploration of possible funding sources from other developing partners, specialized trust funds (e.g. Public Private Infrastructure Advisory Facility PPIAF for transaction advice regarding PPP or Private Investment Development Group PIDG), private sector investors and commercial banks.

8. (Q) Regarding the geothermal component, we understand that, unlike in Kenya and Ethiopia, there is no existing (even experimental) geothermal power plant in Tanzania. To what extent have there already been exploration drillings allowing the qualification of certain areas/fields? Is there a clear idea of where the proposed geothermal project should be located? Which area would that be and why?

9. (C/Q) We noticed that the cost of 1 kW installed capacity of the proposed geothermal project in Tanzania is estimated at over 5300 USD. This is far higher than the costs foreseen for Menengai (3900 USD) or Aluto Langano (3400 USD). Could this be explained?

10. (C) We welcome the proposed step-by-step approach with the geothermal development project, starting with the improvement of the enabling environment. We noticed that the USD 25 million SREP funds are further foreseen to:
    a. assess the geothermal resources (including exploration drilling in various still undefined locations),
    b. mitigate the project development risk (including project co-financing and transaction advisory services)
    c. mitigate the delayed payment risk of the utility (TANESCO).

    It would be useful to get a more precise description of the different activities to be co-financed by the SREP contribution, as well as a tentative estimation of total costs and SREP contributions for each of these activities.

11. (C) We welcome the extension of rural electrification with renewable energy on the basis of existing experience gained through the TEDAP (Tanzania Electricity Development and Access Project) and we believe that the proposed SREP funding will contribute to scale-up this program.

12. (R) While access to (clean) energy is a necessary condition to escape poverty, a minimalistic power supply is not sufficient to generate the transformation effect sought in the SREP program. We therefore recommend to dimension the mini-grid, micro-grid and SSMP based electrification projects in a manner that electricity gets accessible in the concerned communities also for productive use.

13. We would like to emphasize on the importance to preserve the forest resources of Tanzania, which is conditional to the substitution of and/or a more efficient use of traditional biomass in the rural areas. In this sense the mentioned reserve project (alternative biomass supply) would be a relevant addition to the program, if and when Tanzania becomes eligible for additional funds from the SREP.

Conclusion:

Switzerland supports the endorsement in principle of the SREP investment plan for Tanzania and is ready to approve project preparation funds for both projects. For the final approval of the investment plan, during the next SREP Subcommitee meeting in November 2013, we would like to have our comments and recommendations addressed in an update.