September 27, 2011

Comments from Norway on Kenya's Investment Plan

Dear all,
Thanks for our video conference 8th September. Please see attached comments to the discussion. Due to illness, they are posted a bit late. Sorry for that. Look forward to see you all in DC in not so long.
Thanks and regards,
Bente
PS: cifadminunit, could you please distribute this to those who should have it ? Thanks.

Bente Weisser
Senior Adviser
Ministry of foreign affairs
Norway

Norway is aware of some concern from committee members about the poverty alleviation effect of the proposed geothermal investment in Kenya's investment plan. It is Norway's view that this type of investment in geothermal makes a real contribution to poverty reduction, both directly and indirectly.

- **Energy access for the population.** First, it is clear that by increasing the installed capacity of the power system by 200-400 MW, one will make available energy to the entire population, including vital public institutions and services, as well as poorer households. A 200 MW geothermal installation would likely allow for about 1,500 GWh annually. This would provide sufficient energy for some 400,000 households consuming 300kWh/month. Further, given that no other grants appear to be involved in the geothermal investment, SREP financing is likely to be the high risk capital and is thus instrumental in leveraging the other financing. Thus, with a $40m contribution from SREP, one directly contributes to sufficient energy to supply some 400,000 households, or about $100 of SREP funding per household. This would compare with 11,000 households gaining access from a $10m SREP + $42m in grants to mini-grids – or nearly $5,000 per household. While we recognize that this is not a straight forward or just comparison (neglecting both grid costs and power reliability issues) it should raise some doubt as to whether or not the SREP portion of the mini-grid investment indeed has a higher (direct) poverty alleviation effect than that of the geothermal investment.

- **Clean base power that supports economic development and other renewables.** An additional important benefit of the geothermal investment is the provision of base power from a clean resource. This type of power is particularly valuable, especially in a system that will eventually come to rely on variable and unpredictable renewable sources such as wind and solar. Thus, in addition to providing clean base power to both households, small businesses and industrial applications, it also allows for increased investment in other renewables. That is, by its nature, geothermal is a

resource that can offer both scale and flexibility that can spur economic growth in a way other renewables cannot.

- **The potential for a large multiplier effect.** In addition to the direct impacts of the proposed investment in geothermal, there is a real potential that by assuming the associated first-mover risks one could achieve the above mentioned impacts many times over. That is, if this project is successful and other investors follow suit, this SREP investment will have been seen as breaking the path for projects that would replicate the positive effects listed above many times over, and potentially benefit the entire region.

As an aspiring developing country, Kenya should be fully supported in its efforts to achieve both sustainable economic development and targeted poverty reduction. Accordingly, Norway once again offers its full support to offering the necessary SREP financing in helping Kenya realize its geothermal ambitions, at least when it comes to the initial 200MW.