

CLIMATE INVESTMENT FUNDS

SREP/SC.IS.1/Inf.3/Rev.1
September 7, 2011

Intersessional Meeting of the SREP Sub-Committee
Washington, D.C.
September 8, 2011

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



Memo

Date: September 5, 2011

For: SREP Admin Unit
SREP Sub Committee Members

Copy to: Min.of Foreign Affairs (DK): C.Bertelsen
SECO WEIN bou, gym

Reference: 2011-08-31/213

SREP / Swiss Position to Kenya Investment Plan

Background

Kenya submitted its investment plan (IP) for endorsement to be discussed in an inter-sessional SREP subcommittee meeting on September 8, 2011. The IP was circulated on August 10, 2011.

We thank Kenya for the well elaborated, complete and easy to understand document. We also thank the CIF Admin Unit for its circulation and organization of the inter-sessional meeting on September 8 2011, and the opportunity we thereby have to comment the IP.

SECO position

According to an internal evaluation we made, the Kenya IP well responds to the SREP design principles and its operational criteria in prioritizing investments. In consideration of SECO's usual risk categories¹, the overall investment plan bears a medium risk, accentuated by the large scale geothermal development program. The inclusion of USD 35 million from the reserve fund is problematic insofar as all six pilot countries are likely to be competing for the USD 60 million reserve fund and thus its eventual use is unsure.

Overall Switzerland supports the endorsement of Kenya's IP but makes the following reservations and recommendations:

1. We recognize the demonstrative impact and transformative potential of the development of geothermal resources in the Menengai field and thus support the proposal to
-

¹ SECO considers: development risk (risk to fail on relevance/effectiveness/efficiency/sustainability), financial risk, fiduciary risk, social risk, environmental risk and reputational risk.

allocate the largest share of Kenya's SREP allocation (of totally USD 50 million) to this project. However, we believe that an 80% allocation to one program is excessive and given the large commitments from the MDBs (WB group and AfDB) not absolutely necessary. While the geothermal development program scores highest against the SREP principles and operational criteria, it also bears the highest risks (notably a serious reputational risk in case of a failure). We thus suggest to reduce the allocation to the Geothermal Development of Menengai (phase A) to 50% i.e. USD 25 million. The difference of USD 15 million could be used as described below.

2. We recommend using USD 5 million to fund a Kenyan knowledge base for geothermal development, which should increase Kenya's chances to become a leader in this field.
3. We recommend using USD 10 million to support the Solar Water Heating program that Kenya has proposed to fund from the reserve. We believe the program presents good potential for economic development and creation of employment, besides its impact on promoting renewable energy. Emphasis should be put on the formulation of a clear incentive mechanism to encourage companies and households to convert to solar water heating. Also the build-up of a dedicated industry (local assembly, engineering, installation and maintenance) should be favored to ensure sustainability.
4. We support the USD 10 million allocation to a program to develop hybrid mini-grids in remote areas. In such a program, we would favor solar PV applications, which allow more flexibility than wind or solar thermal generation. The development of engineering, installation and maintenance capabilities should be emphasized and thereby synergies should be sought with other programs (solar PV installations in public institutions and off-grid solar PV installations), which are not targeted for SREP funding but also contribute to the scaling-up of renewable energy.
5. Under the assumption that Kenya and the program qualify for a SREP reserve fund allocation, we support the inclusion of USD 10 million for transmission systems (cables, overhead lines and substations) to assure the connection of the Menengai geothermal field to the national grid. These transmission systems should however concern the general infrastructure to be put in place for all power producers, not the power evacuation systems of individual power plants, which should be included in the latter and financed accordingly. The SREP contribution should thereby primarily be used to fund mitigation measures to the environmental and social impact of the transmission systems, as well as a possible financing gap.
6. We believe that the incentive of a feed-in tariff of 8.5 US cents per kWh (with estimated production costs at 7 US cents/kWh) is enough to motivate private investors for the 200 MW power plant. Therefore we do not think a SREP contribution (as proposed from the reserve fund) is necessary for the power plant.

We hereby transmit our position to the SREP Admin Unit, with the wish that it shall be distributed to the SREP subcommittee members for information and as a basis of discussion for the meeting on September 8, 2011.

We thank Kenya, the SREP Admin Unit and the Subcommittee members for their kind consideration.