

CLIMATE INVESTMENT FUNDS

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**COMMENTS ON KENYA'S INVESTMENT PLAN
SUBMITTED BY CIVIL SOCIETY OBSERVER**

Developed Country Civil Society Observer Contribution

The SREP Investment Plan for Kenya (IPK) documents provides a summary regarding the rationale, programme description, results framework and financing plan and instruments. The IPK describes important co-benefits which the Plan intends to achieve. We welcome the overall Plan's efforts to improve equity of opportunity expanding access of rural and urban poor to basic services such as electricity, water and sanitation. In this context, we respectfully submit the following questions and issues for consideration in the further elaboration of this Plan. We recognize that some of the concerns raised may have been addressed in subsequent documentation which has been circulated very recently.

Civil society participation in the IPK development

In preparation of the Plan, one civil society organization, the of Kenya Institute for public Policy Research and Analysis (KIPPRA) was consulted. A key number of concerned and aware non-governmental organisations such as the Kenya Climate Change working group are not mentioned in the IPK. We request that further consultations regarding the development of this Plan include this working group as well as other key stakeholders.

Access to key documentation

To appreciate the scope, legal and policy context of the IPK, access to or availability of key documentation referred to in the Plan is needed. These include:

- Kenya Vision 2030 as the National Economic Development Blueprint
- Sessional Paper No. 4 (2004) on Energy Policy
- Energy Act of 2006
- Least Cost Power Development Plan
- Rural Electrification Master Plan; the Feed-in Tariff Policy
- Kenya National Climate Change Response Strategy
- Gender Audit of Energy Policies and Programmes in Kenya (2007)

Clarity of Indicators in the Results Framework

Indicators for the following Results have yet to be confirmed regarding specific baseline data as of 2010 and target data. This data is necessary to inform decisions to implement the IPK, particularly regarding key primary and co-benefits which the Plan intends to achieve. Both decision-makers, entities potentially involved in the management and implementation of the Plan, communities affected by implementation and key beneficiaries should have access to this information at the earliest possible stage of the Plan's development.

Result 4 under **Project Outputs and Outcomes** concerns "Decreased cost of electricity." The two indicators provided are reductions in annual generation costs in (1) isolated mini-grids and (2) in main grids. Both baseline and target costs are not confirmed.

All indicators in relationship to results under the **Catalytic Replication** criteria remain to be confirmed except for one. Desired results under this parameter include (1) an increase in renewable energy generation investments, (2) improved enabling environment for renewable energy production and use, and (3) increased economic viability of renewable energy sector. The absence of baseline and target value data for indicators under these results may trigger a lower confidence in the IPK achieving key SREP objectives i.e. the scaling –up of renewable energy in Kenya and addressing key development barriers.

All indicators in relation to criteria area: **Transformative Impacts in Kenya** are also not confirmed. The result desired is to transform energy supply and use by poor women and men in Kenya, to low carbon development pathways. The indicators include (a) the number of new households connected to electricity in rural areas, (b) the population (rural) consuming energy services from new hybrid renewable energy systems, and (c) Change in the energy development index – EDI (per capita energy consumption). Target data is lacking and is critical information for decision-makers regarding the IPK.

Governance of key implementing national institutions

Given the unbundling of the vertically-integrated Kenyan electricity subsector monopoly and related sectoral reforms, an objective analysis of the governance of current electricity sector institutions should be provided to reinforce confidence in the development and implementation of planned SREP projects. This enables national and local stakeholders including the renewable energy private sector, programme beneficiaries and affected communities, to build their confidence in the accountability, transparency and integrity of electricity sector institutions. Such institutions include:

- Ministry of Energy (MOE),
- Energy Regulatory Commission (ERC),
- Rural Electrification Authority (REA),
- Kenya Electricity Generating Company (KenGen),
- Kenyan Power and Lighting Company (KPLC),
- Kenya Electricity Transmission Company (KETRACO),
- Geothermal Development Company (GDC),
- Independent Power Producer (IPPs)
- Energy Tribunal
- Green Climate Facility
- National task Force on Accelerated Development
- Least Cost Power Development Plan Committee

Renewable Energy Sector Context

The IPK recognises that geothermal resources have an estimated potential over 7000 MW are providing less than 200 MW of electricity to date since the first drilling in 1955. In this context, providing an objective analysis as to why production has been limited to date may provide guidance for understanding potential or existing impediments to the IPK proposed actions facilitated by SREP financing. Some of these impediments may have not been fully captured in the present IPK.

The IPK notes that the Government is undertaking a number of actions to promote solar PV systems around the country. One of these is the adoption of Energy (Solar Photovoltaic

Systems) regulations (2011) which are expected to “provide a licensing framework for the solar PV value chain...” . The governance of this licensing framework will be a crucial factor to enable equitable development of this energy source in the country.

Regarding the solar water heating component, it is unclear how the government will regulate and implement a mandatory installation of heaters in the absence of a climate change policy. SWH installations usually attach high costs in terms of equipment and in technical maintenance costs. What plan is envisaged to support parties required to have and maintain the heaters in short, medium and long term scenarios.

Risk Assessments

Institutional risks in the IPK are rated as “low.” The risk assessment itself is skeletal highlighting key areas where independence and transparency of key institutions are regarded. More information is needed to substantiate the assessment. The IPK states: “Institutional capacity of the implementing agencies including their capacity to handle procurement, financial management, and environmental and social safeguards will be assessed before project appraisal and, where necessary, capacity development will be provided.” An independent assessment of these capacities will be important to establish that implementing agencies comply with internationally recognised standards regarding procurement, financial management and environmental and social safeguards. This assessment provide important information for decision-makers, potential capacity development actions, and governance concerned stakeholders. Results of the assessment should be made publicly available.

Social Risks

Public consultations are a mandatory part of Environmental Impact Assessments (EA). The IPK risk assessment states that “the addressing of feedback (of consultations) by the project proponent is generally included as a condition for approval of the EA. Appropriate social development measures will be incorporated into project design.” While this is a highly welcomed measure, consultation practices have shown that serious consideration of public views can often be disregarded or not sufficiently addressed in project designs prior to implementation. Attention and scrutiny need to be paid to ensure the robust character of consultation practices and the degree to which the views of stakeholders are effectively addressed at the project development and implementation stages. This would be highly important if any of the proposed projects would have a direct or indirect impact on the livelihoods of people in the implementation of projects.

Further, while it is not suggested that people or communities would need to be relocated for project implementation purposes, confirmation of this matter would be a key consideration. Any relocation action should ensure an appropriate consultation processes and include, where relocation is inevitable, an appropriate compensation package.

Financial Risks

The IPK states that “...making new business models for geothermal development, managing hybrid mini-grids and solar water heating systems financially sustainable would require regulatory measures and market research.” According to this analysis, financial

sustainability depend significantly on regulatory measures and market research which are currently not in place. The confidence in both factors having positive impacts on financial sustainability should be a key concern for decision-makers, support actions and eventual programme beneficiaries.

Financing plan and planned energy cost reductions

The total amount of finance required for 200 MW Geothermal Phases A and B, the Hybrid Mini-Grid Systems and the Solar Water Heating Component is USD \$928 million. Of this amount the SREP would finance USD\$85 million. The total contribution of the Kenyan government is estimated at USD\$132 million. The World Bank group and the African Development Bank aim to fund USD\$ 321 million and the remaining USD\$ 242 million is to be financed by development partners and commercial loans.

Within this financing plan, it is not clear whether the finance from the latter two sources will be largely in concessional or non-concessional loans or other funding arrangement. The terms of the financing plan are linked to the IPK aims to increase access to electricity at low cost to wider communities throughout Kenya and to support the country's sustainable development plans. It is reasonable to question whether this financing arrangement result in increased energy costs to poor communities in short, medium or longer terms. This is a key concern which could be addressed better by demonstrating that energy costs will remain affordable for recipient communities notwithstanding the financing arrangements proposed.

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