

4/11/2014

Comments received from the United Kingdom-- Ethiopia: Geothermal Sector Development Project (GSDP) SREP (IBRD)

Dear Gevorg,

Thank you for your e-mails - we do have a number of questions and concerns regarding this proposal and would appreciate participation in a call on Monday to clarify to the extent possible. We are keen to ensure that approvals happen as smoothly and efficiently as possible, but as it is 2 years since the Investment Plan was approved, we do have some outstanding questions that need to be resolved before we can approve.

Our questions of clarification for the Government of Ethiopia and the World Bank are as follows:

1. We do not see an **Independent Technical Review** of this Project Proposal as is required by the SREP procedures. We would appreciate if this could be forwarded for our consideration in this process.
2. It appears that in spite of SREP's design principle to encourage private sector investments and recent shifts by the Government of Ethiopia in the structure of the market - this this **proposal excludes the possibility of private investment**. In the context of the SREP objectives and the sector shift already in progress – why is it proposed that the SREP funds are used for an entirely donor-funded, state-delivered project? Might this in fact have a negative impact on market perception and investment?
3. The PAD mentions in several places that the tariff is not at economic levels and that this should be reconsidered such that the energy sector can move towards financial viability. We would appreciate some information on the GoE's position on this, given that at present it appears that SREP is being asked to contribute financing to a **power project in a non-viable market context** - which does not match with SREP's ambition to support sectors which have transformational potential.
4. The PAD suggests that Geothermal is a “relatively new technology in the region” however geothermal exploration has been ongoing in East Africa since the 1970's. The capacity issues of the proposed lead entity EEP with regards to geothermal, procurement and financial management is noted in several places. What evidence is there that the **proposed delivery approach** can overcome earlier barriers faced by the same (or predecessor) entities?
5. While the PAD makes brief reference to a number of other initiatives, it is not evidenced that this project is fully **co-ordinated and complementary** to these – including the existing SREP support to the Geothermal Sector Strategy via IFC. Can the alignment between this proposal and the Geothermal Sector Strategy be

explained more clearly (including the proposed \$3m Legal, Institutional and Regulatory Framework Development work)? How does this project link to the Geothermal Risk Mitigation Facility (this is referenced only once, in Annex 3)?

6. The requested **SREP support is for 'drilling consumables'**. We would appreciate further information on what is included in this, why this is considered the best use of SREP resources, and why SREP support in this area is additional.
7. We would appreciate seeing the evidence to back up the 25% **dry well assumption**. The recent IFC proposal in Ethiopia on the Geothermal Sector Strategy cited 50-70% dry wells being typical.
8. We request that the expected financing from the Government of Japan to build the power plants should be counted in a consistent way and that the **WB approved co-financing numbers match the TFC approved co-financing numbers**.

We look forward to discussing these points at the call on Monday, and would also appreciate a written response at an appropriate point.

Best wishes,

Steven

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