

CLIMATE INVESTMENT FUNDS

March 4, 2016

**APPROVAL BY MAIL: DPSP II KENYA: CONCESSIONAL FINANCE PROGRAM FOR GEOTHERMAL
GENERATION (CTF) (AFDB)- PCTFKE604B**

Comments Received from Germany

Dear Mafalda and AfDB-Team,

Germany is in principle very supportive of the future geothermal development in Kenya and other countries in the East African Rift Valley, especially given our funding for GRMF and other geothermal projects in Kenya.

We have reviewed the proposal carefully and look forward to the answers to the questions raised by our UK colleagues.

In addition to those questions, we have a few more questions (some of them might be complementary to the questions of the UK colleagues) which we would like to see answered before considering our approval:

1. Which criteria has AfDB used to assess the requirement of concessional funding?
2. Are the projects currently bankable? In our view, an enhancement of the project's bankability is not acceptable as criterion for concessional financing.
3. Please clarify how many projects are going to be financed. As this is unclear, we assume that the above mentioned assessment does not correspond to a due diligence.
4. Please indicate the internal rate of return (IRR) and return over equity (ROE) for each project to be financed under two scenarios: without and with CTF-Funds (with the proposed concessionality). What are minimum figures for these indicators to have a bankable project?
5. Please clarify how the electrification rate will be improved with this program, compared to investments in grid-connected projects.
6. How is cost-effectiveness and fair competition granted among the private sector stakeholders, given that the approach seems to have been developed by manufacturers? Under this project developers' situation, how is it expected to ensure value-for-money?
7. How is the AfDB PRG going to be implemented in structuring these projects?
8. Is the participation of any other guarantee mechanism foreseen, in addition to AfD PRG??
9. How do you justify a pricing of 75 bps (standard pricing for public sector loans) for a private sector project with no government guarantee?
10. Please provide Levelized Cost of Electricity (LCoE) and payback period for the options proposed in Figure II (page 5). What is the gap in terms of cost of capital (base points) between both scenarios?
11. What contribution from the capital expenditure is expected to come from equity shareholders? At which cost?
12. As a pricing floor is indicated, there should also be a pricing cap for the CTF-Funds.
13. How will it be possible for AfDB to minimize concessionality through longer term conditions, instead of pricing directly?
14. Please review GHG emissions reductions calculations and indicate a single figure in the document. There seem to be some inconsistencies.

15. What kind of additional guarantees are included in financial covenants to reduce, mitigate or eliminate the contract termination risk? Why does GoK not provide a Sovereign Guarantee?
16. Based on current GDC operation, its creditworthiness will depend on their revenues and debt service. Please indicate how this factor is going to be secured for 20 years of operation? How many Project Implementation and Steam Supply Agreements (PISSA) have been signed and under which regulatory framework have they been structured?
17. Has the route for the transmission line and the interconnection scheme been determined? Is it under construction or operation? What is the timeline for the interconnection of the projects in Menegai?
18. Are all power evacuation infrastructures, such as transmission lines and substations, in place? These are typically a bottleneck in terms of project implementation in Kenya. If they are not in place, how is this going to be covered by the financial contracts?
19. Please list all permits, licenses and concessions that are expected to be available prior to the financial close.
20. What is the status of the property where the project will be installed?

Thank you very much in advance for your feedback.

Best regards,

Hans Peter

Dr. Hans-Peter Küppers

Sondereinheit "Klima" - Klimapolitik und Klimafinanzierung

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