

March 15, 2012

**Comments from Switzerland on the SREP Investment Plan for Ethiopia**

Dear Patricia,

Please receive attached the additional Swiss questions and comments regarding the SREP Investment Plan for Ethiopia.

For the sake of completeness, our original comments have also been attached.

We would appreciate if you could transmit these comments to the representatives of Ethiopia and the MDBs to be answered for consideration in the regular SREP Subcommittee meeting on May 30<sup>th</sup>

Thank you and best regards

Daniel Menebhi

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## **SREP Investment Plan for Ethiopia**

We thank Ethiopia for a well prepared Investment Plan.

We understand and value the efforts that were made to produce a document that addresses needs of the country and is consistent with the strategies already pursued.

We have the following comments:

1. The analysis of the Investment Plan and the general context shows a rather controversial picture of a country where 85% of the population lives in rural areas and electricity access is less than 10%, and where publicly operated utilities produce and export excess electricity. We understand that this situation is related to the seasonally cyclical nature of hydropower generation, which is the backbone of Ethiopia's installed capacity. However, on the assumption of strong domestic growth, the IP focuses on grid connected large scale developments, still underlining the potential to export. We believe that the export of electricity, in a similar way as the export of natural resources, fails to enhance the domestic development, which in a country with 77 million still mostly poor inhabitants is crucial.
2. With a focus on two large scale projects (geothermal development and wind park) and a proposed allocation of 92% of the maximum available SREP funds to the latter, the Investment Plan fails to directly address the key objective of poverty alleviation through increased access to renewable energy with particular focus on rural areas.
3. Also, both of these large projects are to be exclusively developed by the public sector. Only the capacity building component (III) foresees the involvement of the private sector, as recipient of advisory services grants and grants or loans from a financing facility. As mentioned in the expert review, component III is also the only one to address the energy poverty issue.
4. We consequently recommend and insist on a reallocation of USD 10 million from components I and II to component III, whereby 20% may be allocated to the capacity building for SMEs (3.2) and 80% should be allocated to the Financing Facility (3.3). Such a reallocation would free the way for Switzerland to endorse the IP.
5. The use of the Financing Facility should be driven by the focus on removing barriers to the large scale deployment of proven RE technologies, such as those mentioned in the IP. The GoE should support this deployment by the creation of an enabling environment on an institutional, fiscal and regulatory level. Thereby attention should be given to the fostering of nascent economic sectors (such as the solar industry) and the creation of jobs at micro level.
6. With regards to electrification in remote areas, we believe that solar PV applications are a good alternative to provide access to electricity. In a country like Ethiopia, access to electricity is still a high priority and the impact on education as well as access to information and communication technologies is at least as important as the employment effect of factories.

Because of the high costs involved, a grid based system may therefore not be the best solution for the electrification of rural and remote areas. We would support a program seeking to install off-grid solar systems to households, whereby productive

use is emphasized by proposing larger systems to small enterprises and using synergies with the electrification of community buildings (schools, hospitals, administrations).

To enable a large scale replication of off-grid solar systems, the beneficiaries should be induced to acquire property of the installed systems by paying for them in installments, pre-financed by a micro-credit system with reasonable interest rates. Subsidies should be avoided/minimized.

In order to be sustainable, the program must foresee local facilities for regular maintenance, repairs and recycling (or disposal) of obsolete equipment. Life cycle considerations should ensure that the most sustainable and environmentally sound solar PV technology is used.

7. As Ethiopia already has two wind parks (Ashegoda and Adama) under construction and partially operational, the demonstration of feasibility should already be achieved. The next step clearly is the involvement of the private sector, one of the SREP objectives. We recommend that for component II (Assela wind farm) the involvement of a private developer is considered and that the SREP funds allocated to the project shall be used to finance a mechanism to sustain a reasonable feed-in tariff, if necessary, rather than for a capital buy down. We understand that the consideration of a Public Private Partnership involves additional needs for technical assistance. This may be funded by the SREP and/or MBD facilities (e.g. PPIAF).
8. To the extent that the feasibility is confirmed, we support the allocation of SREP funds (after due consideration is given to our comment nr 4 above), for the development of the Aluto Langanu geothermal field. We also support the sub-component 1.2 (Design of a Longterm Strategy for the Geothermal Sector). With consideration to the SREP objective to leverage private sector funding, we would welcome a stronger orientation towards that objective also in component I. We further recommend Ethiopia to seek a close cooperation in the matter of geothermal development with Kenya, who has developed and is extending great expertise in this field.



## **SREP Investment Plan for Ethiopia / Additional Comments and Questions**

With regards to our comments sent to the SREP Subcommittee on March 6<sup>th</sup> 2012, and the interventions from Ethiopia and other stakeholders during the intersessional Subcommittee meeting on March 8<sup>th</sup>, Switzerland has supported the endorsement in principle of the SREP Investment Plan for Ethiopia. We have however the following questions and comments:

- a) In its answer to the Swiss comments, Ethiopia contended that, depending on definition electricity access is at present 41%. Please confirm/document that figure notably explaining under which definition it is reached.
- b) What is your targeted electricity access for Ethiopia in 2030 (or similar timeframe)? Please detail the investment plans, notably including the secured financing, that are foreseen to achieve this objective.
- c) Please confirm that the planned grid-based investments (geothermal and wind based) are destined to the national electrification and not for export.
- d) Please detail the proposed cost reduction by 55% through private sector involvement for local wind power equipment by notably disclosing the study on which these projections are based.
- e) Would the Government of Ethiopia be ready to give a concession (or other form of PPP) for the Assala wind farm project? If not, please explain why.
- f) Would the Government of Ethiopia be ready to give a concession (or other form of PPP) for the Aluto Langano geothermal project? If not, please explain why.
- g) Ethiopia indicated during the meeting that the financing needs for the geothermal development is primarily a question of time (urgency). Would the Government of Ethiopia (or the concerned executing agency) be ready to reimburse the SREP funds used with priority for the geothermal development so that they can be reused for other projects, notably an allocation the SME capacity building and financing facility (component III)?
- h) Ethiopia and the IFC have both declared that the SME sector has sufficient means for its development (component III). Please support these statements through evidence.

It is understood that our original comments are still valid and we expect them to be addressed in writing along with the above.

We notably ask Ethiopia to carefully reconsider the reallocation of additional funds to component III, with a special emphasis to support SMEs already successfully active in renewable energy sectors, since this component best addresses the involvement of the private sector and the alleviation of energy poverty (access to energy by the poor in rural areas), which are important objectives of the SREP and high priorities for Ethiopia.