

AIDE MEMOIRE
Lesotho Scaling up Renewable Energy Program (SREP) mission
September 27 –29, 2017

Introduction

1. This Aide Memoire summarizes the findings of the SREP mission of the African Development Bank, and the World Bank in the context of the finalization of the SREP Investment Plan (IP) for Lesotho which was held in Maseru from September 27 - 29, 2017. The mission met with the Principal Secretary of the Ministry of Energy and Meteorology; the Principal Secretary of the Ministry of Finance; the Director of the Department of Energy (DoE) and team; the SREP Focal Point; and the Director of the Bureau of Statistics and team.
2. The Mission was led by Vonjy Rakotondramanana (Sr Energy Specialist) with the participation of Reynold Duncan (Lead Energy Specialist); Edmund Motseki (Operations Officer); and Sipuwe Janet Chihame (Program Assistant). Frédéric Verdol (Sr Power Engineer, co-TTL) remotely supported the mission. The AfDB was represented by Farai Kanonda (Chief Investment Officer), and Samuel O'Brian-Kumi (Consultant). The mission also received support from Brendan Larkin O'Conolly (DHI Consultant).
3. The Mission wishes to express its appreciation for the courtesies received and for the support and collaboration accorded by the Ministry of Development Planning, the Ministry of Finance, and the Ministry of Energy and Meteorology¹.
4. The list of stakeholders that the mission had discussions with is detailed in Annex 1.

Objectives of the mission

5. The objective of the Mission was to finalize the SREP IP following the discussions on the draft IP which were held during the joint mission of the African Development Bank (AfDB), International Finance Corporation (IFC), and the World Bank in May 2017. The mission (i) reviewed and validated the investment priority areas with DoE following the comments received and discussions with stakeholders during the joint mission in May 2017; and (ii) discussed the measures that the GoL needs to implement to allow the timely submission of the SREP IP to the SREP Sub-Committee.

¹ Mr. Tieho Mamasiane, Principal Secretary, Ministry of Energy and Meteorology (MEM); Mr Thabang Phuroe, Director of Energy, MEM; Mr. Jerry Seithheko, Deputy Director and SREP Focal Point; Mrs Nthoateng Lebona, Principal Secretary, Ministry of Finance, Mrs Celina Molato, Director Bureau of Statistics, Ministry of Development and Planning

Status of the SREP IP preparation

6. Following the joint mission in May 2017, the draft Investment Plan was updated and shared with GoL and Multilateral Development Banks (MDBs) including the World Bank, and the African Development Bank (AfDB). The draft IP laid out the energy sector background, the assessment of the potential of various Renewable Energy (RE) technologies in Lesotho as well as the main barriers to their development and the description of the program with the best activities to be covered under the SREP initiative considering the Government priorities, the SREP criteria, and the areas of support of involved MDBs.
7. Based on the discussions of the mission with the Department of Energy, a third component was added in addition to the two components already identified in the first draft IP to provide Technical Assistance to conduct more detailed studies to facilitate the development of hydro generation. The SREP IP therefore have three components as follows: Component 1: On-grid RE technologies; Component 2: Off-grid RE systems; and Component 3: Technical Assistance.
8. The mission and the DoE also agreed that the draft IP should be revised to strengthen the rationale on the program description for the On-grid component namely the prioritization of the 20MW solar project that receives support from AfDB. In addition, the complementarity activities to the SREP activities in the off-grid areas which are funded by EU and UNDP will be highlighted in the revised IP.
9. The DoE informed the mission about solar heater and solar street lighting activities that the country has been implementing and will share this information with the Consultant to be described in the relevant section of the SREP IP.
10. The mission reiterated that the SREP IP for Lesotho needs to be endorsed by the GoL. by end of October 2017 and submitted to SREP Sub-Committee by November, 03 2017 to be included in the meeting agenda of SREP Sub-Committee in December 2017. Before then, the GoL should disseminate the draft IP for two weeks to receive comments from the public. This could be done online via a website accessible to the public or another type of public consultation. In parallel, as per the SREP procedure the World Bank will send the draft IP to an Independent Panel for review to check the quality of the document before it is considered by the SREP Sub-Committee for approval.
11. With the support of the Consultant, the GoL should finalize the IP including the table indicating the needed Project Preparation Grant (PPG), and submit it together with an endorsement letter, and the independent technical review report to the SREP Sub-Committee by November 03, 2017. Meeting this deadline is critical to avoid additional delay because the next SREP Sub Committee meeting is in June 2018. The endorsement letter could be signed by the Ministry of Energy and Meteorology at the Minister level or at the PS level. The World Bank provided templates of the endorsement letter after the mission.

12. When the IP is approved, the GoL may wish to send a letter to the Bank asking the latter to execute the PPG on its behalf as it was the case for the IP Preparation Grant. In fact, the appropriate handling of such Grant in terms of procurement, financial management, and reporting would require the involvement of different experts. Given the success that country clients have experienced in giving the administration of such Funds to the Bank, this option would accelerate the preparation of the SREP project.
13. The World Bank confirmed that subject to a request from GoL it will provide US\$ 10 million of IDA to support the implementation of SREP IP. On receipt of the letter and after the IP is approved by SREP Sub-Committee, the World Bank team could start the discussions with the GoL to prepare a new project based on the SREP program. More detailed analysis would need to be undertaken to determine the project objectives and activities.
14. The mission also informed the Ministry of Finance about the contribution that the GoL should provide to the SREP program. It could be in the form of Tax and/or VAT exemption for the importation of RE equipment. The Ministry of Finance will look at this requirement and will provide confirmation but in principle, the GoL could provide this kind of contribution if it is necessary.

Demonstration of Government Commitment

15. The GoL has shown its commitment to RE development and to the implementation of the SREP IP. The mission and DoE had discussions regarding the scope of work proposed under the SREP IP to ensure that not only are they strategically positioned vis-à-vis other activities and reforms undertaken by the GoL but also, they are aligned with SREP criteria.
16. The mission reiterates that the GoL should confirm the implementation arrangements (paragraph 15) for the implementation of the SREP program in line with revision of the sector institutions mandates being undertaken with the support of EU.

Key outcomes of the mission

17. **Agreement on the components of the SREP IP.** Based on the discussions with the Ministry of Energy and Meteorology (MEM) the IP will have the following components:
 - a. Component 1: On-grid Renewable Energy technologies (Utility scale). This component will prioritize the development of 20MW solar IPPs, and the conducting of site specific studies, to establish the merits of follow-on projects for development.
 - b. Component 2: Off-Grid systems. This component would cover mini-grid technologies (solar, hydro, hybrid); Solar Rooftop; Stand Alone Systems such as Solar Home System (SHS).

- c. Component 3: Technical Assistance for the development of small hydro generation. This component would finance the preparation of prefeasibility studies and other necessary studies to facilitate the development of small hydro in Lesotho
18. The first two SREP components would support the GoL to not only increase RE capacity but also continue expanding access to energy. Project concept briefs have been included in the draft IP. The specific activities of the two identified components would be determined during the project preparation phase after approval of the IP by the SREP sub-committee.
19. **Financing arrangement.** The financing arrangement including the Government contribution is shown in Table 1.

Table1: Financing arrangement for Lesotho SREP IP in US\$ million

Component	SREP	WB	AfDB	GoL	Private	Other	Total
1.On-grid (Component 1)	6.35		11.5	0.6	14.4		32.1
2.Off-grid (Component 2)	12.75	10		5	20		47.75
3. Technical Assistance (Component 3)	1.5						1.5
TOTAL	20.6	10	11.5	5.6	34.4	TOTAL	81.35

20. The mission reminded the GoL that an indicative project preparation grant of the amount up to US\$ 1.5 million could be requested from the SREP Sub-committee once the IP is approved. The project preparation grant can be used to finance the preparation of specific activities under the three components.
21. Based on a preliminary calculation, the tentative total financing of US\$ 32.1 million for the on-grid component would be used to increase the RE capacity as follows: up to 20 MW for solar parks. Regarding the off-grid project, the tentative amount of US\$ 47.75 million could potentially allow connecting about 35,000 households. It is important to note that feasibility studies are needed to confirm the figures.
22. **Implementation arrangement and monitoring and evaluation.** The mission reiterates that the GoL should provide confirmation on the entities that would be responsible for the implementation arrangements and monitoring evaluation related to the three proposed SREP activities in Lesotho. Under the leadership of the MEM, the Rural Electrification Unit has been given the mandate to implement rural electrification programs in the country, so it is best suited to implement Component 2. For the on-grid Component, the mission suggests for consideration of Government that a dedicated unit be created outside LEC, preferably within the Department of Energy, with the requisite professional experience to run the program. DoE seems to be the right entity responsible for the Component 3 and for the monitoring and evaluation at the sectoral level.

23. The mission also reiterates that the Ministry of Energy should identify areas of weaknesses of those implementing entities that need capacity strengthening to ensure readiness for implementation, and monitoring and evaluation of the implementation of the SREP IP.
24. There has been positive experience in the country with micro finance and it is currently considered the only solution for financing at the rural population level. The financing arrangement would be discussed during the project preparation phase. Activities financed by GEF administered by UNDP are currently looking at financial mechanism that could better support rural electrification through distributed RE technologies. The off-grid activities under the project that would be funded by the World Bank would build on the results of this ongoing study.
25. **Project timelines and responsibilities.** The mission discussed the project timelines and responsibilities with MEM based on the procedures of SREP and the outcomes of the mission. The final draft IP including the updating of the project description, implementation arrangements, monitoring evaluation, and results framework, and project concept briefs should be completed by October, 16 2017 to allow time for the GoL to undertake public consultation and to finalize and endorse the IP by end of October 2017 for submission by the MEM to the SREP sub-committee by November, 03 2017. The timelines and responsibilities are detailed in Annex 2.

Agreed next steps

26. The mission and the government agreed on the following actions and target timeline:
- a. The MEM undertakes public consultation for 02 weeks starting the week of October, 16 2017;
 - b. The WB sends the finalized IP to SREP independent evaluators the week of October 16, 2017;
 - c. The final IP addressing all the received comments should be endorsed by the GoL by October, 31 2017 and submitted to the SREP Sub-committee for approval by November, 03 2017.

Annex 1: List of people met

NAME	POSITION	EMAIL
MINISTRY OF ENERGY AND METEOROLOGY		
Tieho Mamasiane	Principal Secretary	
Thabang Phuroe	Director Energy	tphuroe@yhao.com
Ramokuinihi Motai	Senior Economic Planner	rmotai@ymail.com
Mokhethi. J. Seithheko	Deputy Director	peo.re@energy.gov
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MINISTRY OF DEVELOPMENT PLANNING		
Celina Molato	Director of BoS	cmolato@gmail.com
Lerato Makana	BoS	lerato_makana@yahoo.co.uk
MINISTRY OF FINANCE		
Nthoateng Lebona	Principal Secretary	
PRIVATE SECTOR /NGOS		
Hlalele Hlalele	Programme Officer	hlalele@trc.org.ls

Annex 2: Updated project timeline

#	Actions	Deadline	Responsible
1	Submit Preparation Grant Proposal to SREP Subcommittee	Done	SREP Focal Point with WB
2	TORs for Consultant and Candidate	Done	SREP Focal Point with WB
3	Hire consultant	Done	WB
4	TORs for the Joint Mission sent to the SREP Sub Committee	Done	WB/SREP Focal Point
5	Clearance of TOR for Joint Mission by CIF AU	Done	SREP Sub-Committee/CIF Admin Unit
6	Finalization of the draft IP	Done	SREP Focal Point/ National Task Force and WB
7	MDB Joint Mission and stakeholder consultations to review the results of the draft IP and way forward	Done	MDBs/National Task Force, other Stakeholders
8	Revision of the draft IP	October, 16 2017	SREP Focal Point/Consultant/WB
10	Disclosure of IP for public consultations (following country's practice)	Week of October, 16 2017	DoE/SREP Focal Point/Consultant
12	Submit SREP IP to Expert for quality review	Week of October, 16 2017	WB
13	Revision of the IP based on comments received and endorsement by the GoL	October, 31 2017	SREP Focal Point/Consultant/MEM
14	Submission of the package (IP, endorsement letter, PPG request, Independent Review Report) to the SREP Sub-Committee	November, 03 2017	MEM/SREP Focal Point
15	Endorsement by SREP Sub-Committee	December 2017	CIF Admin Unit