

# CLIMATE INVESTMENT FUNDS

January 23, 2015

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## **APPROVAL BY MAIL: KENYA ELECTRICITY MODERNIZATION PROGRAM (SREP)**

Comments Received from the Sub-Committee members from Japan and the United Kingdom

## Comments from Japan

January 23, 2015

Comment to CIF Project “Kenya: Electricity Modernization Project (SREP) (IBRD)”

Japan International Cooperation Agency (JICA)

### 1. Comment from Industrial Development and Public Policy Department

Energy and Mining Group at JICA has been implementing the "Project for Establishment of Rural Electrification Model Using Renewable Energy" since March, 2012, with REA and MoE&P being our counterparts.

Through the project, off-grid electrification model/guideline using renewable energy will be established and is expected to be disseminated by REA to their prospective rural electrification projects after the project termination in February, 2015.

JICA, therefore, would like World Bank to consider utilizing our abovementioned model into off-grid electrification component in the Electricity Modernization Project. We would also appreciate to be kept informed with the progress of the project.

### 2. Comment from JICA Kenya Office

JICA welcomes the World Bank's Electricity Modernization Project, which tackles the complex issue of raising electrification rates in Kenya. As it is straightly expressed in the document, KPLC's financial status and the structure of electrification is a bottleneck in Kenya where KPLC needs new users for improved revenue, meanwhile it can only set unaffordable connection fees to its users.

This KEMP project comes at a precise timing and with necessary comprehensive support in the context where the Kenyan Government has not been able to provide timely financial/technical/political support to solve the critical issues facing KPLC. This project will also positively impact the power sector as a whole as KPLC serves as the off-taker for all electricity producing entities, and its stability is crucial for stable electricity supply.

In August 2014, the KPLC Training Center through the Government of Kenya presented its request to JICA for a technical cooperation project on (but not limited to) the enhancement of O&M of distribution lines. Unfortunately due to constraints, JICA will not immediately be taking up this project. Therefore if there is a possibility for WB to include O&M enhancement in its capacity building component, JICA Kenya would be glad to share with WB Nairobi.

Lastly it is requested to remove JICA from P.12. Although JICA understands the necessity and developmental impact that improved electrification will have on Kenya's society and economy, it is not yet in a position to publicly say that it is preparing to finance this area.

JICA Nairobi is and would appreciate continuous close contact with WB Nairobi to share progress of this and other Projects in the energy sector.

**Comments received from the United Kingdom**

January 23, 2015

Dear Mafalda,

Thank you for the submission for approval of USD 7.5 million in SREP grant funding for the proposal entitled, Kenya: Electricity Modernization Project, submitted by the Government of Kenya and the International Bank for Reconstruction and Development (IBRD).

We are glad to see the submission of this project, and welcome it's integration into the wider proposed KEMP Programme, as a positive step in the direction of integrating on- an off-grid approaches towards universal energy access in the context of World Bank lending operations.

Although we clearly prefer not to hold up approvals of SREP projects, we do not feel that we can approve at this stage without some additional commitments and information, building on the questions sent in by the Swiss. These are as follows:

- Although we have not announced the support in the press, World Bank colleagues should already be aware of the UK's intention to provide substantial TA, credit and grant resources to the mini-grids sector in Kenya, in co-operation with AFD, and co-ordinated through a Government of Kenya-chaired co-ordination group. This is not mentioned in the PAD, and we would appreciate your assurance that these efforts will be co-ordinated to the maximum extent possible – through this established national co-ordination mechanism.
- We still find the business model proposed for mini-grids and the respective roles of REA, KPLC and the private sector (perhaps both a construction/delivery agent and a separate operator) to be unclear. Linked to this we also find the approach to the allocation of public and private resources to be unclear. We feel that almost three and a half years after approval of the IP, a better developed approach to delivery of this project should have been possible. If there is further thinking on the business model and financing approach which has not been presented in the PAD due to space constraints we would appreciate seeing it. Otherwise, we would like to be reassured that there is a clear plan and timeline in place

regarding how this will be clarified.

- We support the overall approach proposed to competitive allocation of grant resources in delivery of the proposed mini-grids, however we support Switzerland's concerns regarding the estimated unit costs. We additionally are not convinced that using earlier benchmarks from government-delivered mini-grid projects is appropriate, and sends the wrong signal to the market. SREP should be aspiring towards best practice implementation costs, recognising the rapid shifts the market has seen. We would also like to be reassured regarding the World Bank's approach to ensuring the transparency and fairness of tendering processes associated with these projects.

We regret that these questions will lead to a slight delay in approval while responses are provided, however we believe the concerns above are critical to the success of the project.