

Kenya: Electricity Modernization Project (KEMP)
Scaling-Up Renewable Energy Program (SREP)
Responses to Comments from *the UK*
January 2015

#	Comment	Response
1	<p>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.</p>	<p>The off-grid component of the project has been designed to be complementary to the support being provided or intended to be provided by DFID, AFD, KfW, and others. The World Bank team participates in the donor-coordination group. During project implementation the coordination will ensure that synergies between the proposed SREP-funded project and support provided by the UK and other development partners to the mini-grid sector in Kenya are optimized. The World Bank team responsible for the implementation of this project will work in close cooperation with development partners and other relevant stakeholders, as well as share information about project implementation on a regular basis. We will reflect this in the final version of the PAD.</p>
2	<p>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.</p>	<p>The PAD describes the initial design of the proposed business model, with the understanding that the final design of the off-grid mini-grid investments as well as principles for allocating public/private resources will be determined in preparation to the tendering process. As indicated in the PAD, the final design of the off-grid investments, together with the main principles for allocating grant subsidies to IPPs, will be determined upon completion of the ongoing pre-feasibility work which is carried out jointly between the WB and IFC (the consultants have been interviewing private companies to refine the business model). The World Bank team has been working with the government to identify specific locations that are propitious for private sector participation. Also, preliminary findings on how to structure the subsidy allocation have revealed mixed opinions and preferences for capital and generation based incentives. Additionally, as mentioned in our responses to Switzerland, the IPP will be selected based on the least cost of electricity provided with a combination of capital subsidy and (possibly) generation based subsidy (based on the energy generated). In either case, the recipient of the grant subsidy will be selected competitively subject to meeting demand, service, and quality standards.</p> <p>Furthermore, it is noteworthy mentioning the existence of three conditions of effectiveness, dated</p>

		<p>covenant or condition of disbursement for this project, which will not only ensure the required clarity on the design of the proposed business model (incl. subsidy mechanism) but also ensure that KPLC/REA have enough capabilities for the successful implementation of the project. The first condition requires that KPLC and REA have developed and adopted a Project Implementation Manual (PIM) which is in form and substance satisfactory to IDA (World Bank). The PIM will describe the final design of the business model, including main principles and procedures for allocating subsidies under the project. The second and third condition of effectiveness will ensure that KPLC and REA have the capabilities required to successfully implement the proposed SREP-funded project. This includes the appointment of a Transaction Adviser, who will provide all the specialized expertise in the areas of structure finance, design of competitive processes for selection of private entities in public/private partnership arrangements, contract negotiations with private parties, project supervision, etc.</p> <p>In regards to the responsibilities of REA, KPLC, and the private sector in the project, please refer to Annex 3 (Implementation Arrangements). We can provide further clarifications if need be.</p>
3	<p>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.</p>	<p>We share the same aspiration to seize on the opportunity of the proposed SREP-funded project to lower unit cost of power generation using hybrid mini-grids in Kenya. All efforts will be made to maximize the resources available and efficiently implement the project with the expectation to reduce cost and reach more customers. As mentioned in our responses to Switzerland, the experience of World Bank-funded projects shows that costs can be reduced for about 20-25% when applying World Bank procurement guidelines, owing to reduced country and payment risk. In addition, the recent reduction in PV technology should also result in lower prices. World Bank rules and procedures will be followed in a transparent and fairly manner.</p>