

September 21, 2010

**Comments from the United Kingdom on the South Africa Projects:**

South Africa Solar Water Heating Programme

South Africa Sustainable Energy Programme

South Africa Energy Efficiency Accelerator Programme

Dear Patricia,

With regard to the South African proposals we have the following questions;

**South Africa Solar Water Heating Programme**

1. What is the justification for the pricing of solar water heaters mentioned in the proposal (R15,000 - R25,000)? It would seem that these are priced at the top end of the market - probably because of their quality and possible manufacture abroad. Could SWHs with lower specs be used that could widen the market and increase value for money? What impact on price will this programme have if locally manufactured. If not, why not? With these price points the project seems to be aimed at middle to high income households and the business sector. What is the case for this? Are there barriers to serving lower income users? What are they?
2. The proposal mentions that economies of scale will drive prices down making SWH units more affordable. Has any modelling been done that indicates how far down prices will be driven and how this will broaden the market.
3. The proposal claims that reductions in SWH prices, brought about through increased competitiveness, will make "them more affordable to even the low income households" (page 10). At an average price of USD 2000, this seems to be a highly optimistic claim, even if subsidies of 20 to 30% are included. Indeed, the October 2009 investment plan mentions that Eskom's 25% subsidy has not had any appreciable impact on the sales of SWHs. Could this be clarified?
4. Regarding the developmental benefits, while a figure of 46,000 jobs created is mentioned, it is not clear how this is broken down. Are they in the manufacture or in the installation and maintenance of the SWHs?
5. The discussion of finance sources is vague on those except the CTF, IFC and AfDB. As a result, it is difficult to understand how the leverage of 1:2-3 is derived. Furthermore, this seems like a fairly low level of leverage. Can this be further clarified?
6. While the programme will be implemented by commercial and industrial users and private households, it is not clear how the programme will be delivered on the ground. It seems that apart from price related issues there may be operational issues that are hindering widespread use of SWHs.
7. Have alternatives to SWHs been considered? For example, have photovoltaic panels been considered that would provide users with electricity in addition to heating hot water by conventional means? South Africa has developed a thin film PV that has potential to be rolled out on a large scale.
8. Regarding the Advisory Services, mention is made of the City of Cape Town's building code which has been identified internationally for its successes. Given this experience and expertise, it is not clear why advice is needed when clearly it is present in the country and can be shared through existing inter city fora, such as the Cities Network, that have been established for this purpose.
9. The life of SWHs is given as 7.5 years in the proposal but 20 years in the investment plan of October 2009. Why is there this discrepancy?
10. The project says they expect most CTF interventions under the project to be as a senior loan, but asks for flexibility. However, only the terms of the senior loan option are discussed, leaving us in the dark as to what the other types are, and how they are structured. Can we have further

information on the other possible terms and structures? Do you envisage placing any cap on possible subordinated debt?

### **South Africa Sustainable Energy Programme**

In general the proposal is vague doesn't go into much detail regarding

1. The project focuses on large scale industrial renewables projects and does not make mention of what benefit the project will have for the poor.
2. The cost effectiveness calculations appear partial and do not enable a proper comparison with the threshold in the CTF guidelines.
3. The development impacts are vague and make mention of employment provision. Can we have more detail indicating how this would breakdown? Please indicate the urban/rural split, the jobs in manufacturing, installation and servicing of the investments.

### **South Africa Energy Efficiency Accelerator Programme**

1. The cost effectiveness calculation is partial and too brief. It needs to emphasise the need for an overall analysis of the cost effectiveness of the measures that might be supported (not just the amount of reductions per CTF dollar) so that this can be benchmarked against the CTF guidelines of a maximum cost of \$200/tonne saved.
2. It is hard to reconcile the figures given in 'demonstration potential' (that outline the possible contribution to Eskom's DSM goal) with the figures on carbon abatement. More detailed calculations would be helpful so that the derivation of these numbers can be verified.
3. The development impacts are vague and seem to mainly focus on economic impacts in general. There is little specific analysis relating to the MDGs and poverty alleviation or other developmental benefits. We would like to see more detail related to these benefits.
4. The implementation potential section refers to the previous text about the SA context - but there is little on policy frameworks and incentives for energy efficiency to counter the low cost of electricity that the proposal admits is a key barrier. Such policy frameworks will be vital if this funding is to have a truly transformational impact. Can we please have further detail?
5. The project says they expect most CTF interventions under the project to be as a senior loan, but asks for flexibility. However, only the terms of the senior loan option are discussed, leaving us in the dark as to what the other types are, and how they are structured. Can we have further information on the other possible terms and structures? Do you envisage placing any cap on possible subordinated debt?

We look forward to responses to these questions.

Thanking you,  
Simon