

CLIMATE INVESTMENT FUNDS

SREP/SC.IS.3/Inf.2

July 24, 2013

Intersessional Meeting of the SREP Sub-Committee

Brussels, Belgium

July 25, 2013

**COMMENTS ON TANZANIA'S INVESTMENT PLAN
SUBMITTED BY SUB-COMMITTEE MEMBER FROM NORWAY**

Norwegian initial comments to the IP Tanzania

We would like to commend Tanzania for its thorough work on the IP. We have however a few general comments to the two suggested investment projects, and some more detailed comments to the IP.

1. Geothermal Power Development Project, 25 million USD.

- The main argument of laying the groundwork for private investments by mapping resources and creating an enabling environment seems to be sound.
- The description of the geothermal project is quite brief, and descriptions in the summary, main body and annex differ somewhat. According to table 1, page 85, 20 of the 25 million USD for the geothermal project will be spent on “test-drilling programme design, test-drilling and feasibility studies”. This could be elaborated upon.

2. Renewable Energy for Rural Electrification (RERE) Project, 25 million USD.

The partner in the rural electrification project is the Rural Energy Agency (REA). As indicated in the SREP (but not included in the financing plan), Norway has recently (April 2013) signed a NOK 700 million agreement with REA for rural electrification.

- It is anticipated that a large proportion of these funds will support grid extension through Tanesco (historically more than 80% of the REA funds have been allocated to Tanesco), and as such one of the key risks associated with the support is that the tariffs are not cost-reflective and that Tanesco is unable to provide sufficient O&M on existing, as well as new transmission. It is hoped that replacement of the oil-generated EPP along with tariff increases will bring more cost-reflective tariffs.
- Another key risk is associated with REA’s implementation and management capacity in light of a significant increase in portfolio and funds volume, to now also include the SREP-IP. As the IP states at the bottom of page 19: ...acknowledged the need to strengthen the institutional capacities of MEM and the REA to handle the increased workload expected during the SREP implementation...” cannot be underestimated
- The Investment Prospectus (also mentioned in the IP) has also flagged capacity concern related to Tanesco and REA relative to national targets and level of ambition
- As much of the funding to REA is likely to be implemented through Tanesco it is important to address risks and capacity associated with both Tanesco and REA

3. Other comments:

- The degree of private sector investments seems sensible
- It is interesting to see and appreciated that Tanzania aims to apply performance based incentives for rural electrification

- As the independent review points out, major market transformation through SREP is unlikely. The proposed IP will first of all be demonstrational and potentially secure that a few projects are implemented
- Ensuring a sound income potential for the projects and a credit worthy off-taker is key in order to create a market and attract private investors, hence, the underlying risks should be addressed. Without cost reflective tariffs and a credit worthy utility it is challenging attracting private capital and commercial banks. Process for addressing some of these concerns are mentioned in the IP, but may be considered to be prerequisite to full SREP funding and at least be considered as indicator for measuring successful progress.
- In addition, addressing the exploration risk for geothermal power is potentially a good way to reduce the risk for private investors and hence attract more private capital and enable involvement of commercial banks (but this is not sufficient alone the risks mentioned above should also be addressed)
- It should be carefully considered how the introduction of credit lines/PPG for off-taker risk (liquidity guarantees) incentivise the utility and how this affect the risk of non-payment. This should be further evaluated and measures should be introduced to address this risk. It is important that underlying risks are addressed to the extent possible before introducing new guarantees
- Clear understanding of how licenses/projects are offered/handed over to private investors should be considered to be in place before support is given to test drilling
- The timeline/realistic time schedule for the proposed programmes/projects should preferably be presented (key indicator)
- As pointed out, there is a risk that inadequate funds will be available. This risk could be reduced by addressing underlying risks (see above) and make clear priorities between the proposed initiatives included in the IP in order to secure the financing of the key activities
- The business model for private involvement in mini and micro-grids are unclear and should preferably be further addressed
- We would recommend that corruption risk should be included in the risk matrix and that measures to address this risk are integrated into the IP
- It is important to enter into dialogue with private developers before test drilling takes place in order to secure that the quality of data gathered are sufficient and to ensure that the site is seen as interesting for investors/project developers – this is key in order to secure that the public/donor funded test drilling becomes catalytic and a successful development of the site
- We would recommend that Ruhoi in Rufiji district (Pwani Region) also is considered as potential site for geothermal development (ref. SREP Investment brief) as our understanding is that this area potentially have large potential and is situated close to large consumer centres