

SREP ETHIOPIA INVESTMENT PLAN

ANSWERS TO QUESTIONS RAISED BY THE SREP SUB-COMMITTEE ON MAY 1ST, 2012

#	Issues/Questions/Comments	Raised	Answers
1	<p>The rationale for SREP involvement in the Assela Wind Farm Project is motivated by a belief that the project can reduce the capital cost of wind farms by increasing local manufacturing. We appreciate the initial information and response to question 4 from Switzerland but we still feel that the answer is still somewhat preliminary and it would be helpful to establish up front some metrics for judging the success of SREP involvement in the project. Example, how much local manufacturing cost reduction should we expect in order to consider the project a success? Is there a way to quantify it? And as the project planning proceeds and estimates of the project's potential impacts on capital cost and local manufacturing become more precise, it would be helpful to know if there is a minimum performance metric with respect to cost reduction to local manufacturing below which SREP support for the project would no longer be deemed needed. More precision on the metrics to assess the benefits of SREP involvement in bringing cost reduction and in increasing the local manufacturing would be helpful.</p>	USA	<p>As previously stated, preliminary studies by private companies already active in the wind sector (e.g. NEFAS (German Co) and dVentus Technologies (USA based co.)), have shown potential to produce locally more than 50% of the technology needed in the development of Wind generation facilities, thus lowering the total cost (especially costs in foreign currency) of the project.</p> <p>It is vital to state that the Assela project is not only about cost reduction due to local procurement but also provide stimulus to efficient and competitive local private companies involved in the sector, allowing them to realize further gains in terms of economies-of-scale and to become more competitive.</p> <p>At the moment it is impossible to come up with a real estimate on the reduction in technology cost due to local procurement for a number of reasons:</p> <ul style="list-style-type: none"> (i) the feasibility studies are not yet completed and therefore the technology to be installed is unknown and so are the costs of the inputs; (ii) the bidding documents which set the rights and obligations of the borrower and the providers of goods, works and services are not completed; (iii) in implementing the project, the AfDB as an implementing agency, will use its Procedures for the Procurement of Goods and Works which set a number of rules guiding the procurement process. <p>In any case, if the procurement is made through international competitive bidding, the Borrower may, in agreement with the AfDB, grant a margin of preference to domestic manufactured goods and to domestic contractors when evaluating bids and comparing domestic with foreign bids, subject to the conditions specified in these procedures. The Borrower wishing to grant domestic preference, must seek the agreement of AfDB, including the applicable margin of preference, either at the time of project appraisal, or at loan negotiations. At this point in time, both the implementing and the executing agency are not in conditions of providing realistic information on cost savings realized due to local procurement of goods, works and services. Please note the principle of economy and efficiency with which the implementing agency needs to abide throughout the implementation of the Project.</p> <p>The AfDB and the Borrower will provide metrics on cost reduction and increase in local manufacturing at the time of project appraisal and loan negotiations.</p>