PROJECT INFORMATION DOCUMENT (PID) ADDITIONAL FINANCING

Report No.: PIDA59133

Project Name	Additional Financing: Kenya Electricity Expansion Project (P153179)
Parent Project Name	Electricity Expansion (P103037)
Region	AFRICA
Country	Kenya
Sector(s)	Transmission and Distribution of Electricity (10%), Other Renewable Energy (90%)
Theme(s)	Other rural development (90%), Other urban development (10%)
Lending Instrument	Investment Project Financing
Project ID	P153179
Parent Project ID	P103037
Borrower(s)	The National Treasury
Implementing Agency	KenGen, Kenya Power and Lighting Company (KPLC), Ministry of Energy and Petroleum
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	15-Apr-2016
Date PID Approved/Disclosed	18-Apr-2016
Estimated Date of Appraisal Completion	11-Apr-2016
Estimated Date of Board Approval	15-Jun-2016
Appraisal Review Decision (from Decision Note)	The review did authorize the team to appraise and negotiate

I. Project Context

Country Context

In 2012, Kenya achieved middle income country status. With an economy growing at an average 5.2 percent over the last decade, Kenya is one of the fastest-growing economies in Sub Saharan Africa (SSA), and continues to exceed the average growth rate for both Africa and the lower-middle income countries. However, the Gross National Income per capita at US$1,280 (2015) is still converging towards the regional average of US$1,638. Inequality remains high with a Gini coefficient of 47.4, and there are significant differences in opportunities and outcomes between women and men and for those living in the remote and most underdeveloped regions, and ethnicity remains an important factor in societal development. To that end, the promulgation of a new Constitution in 2010 signaled far reaching political and economic maturity. Kenya’s highly ambitious devolution of political and economic power to 47 new county governments seeks to narrow long-term, deeply entrenched regional disparities; increase the responsiveness and

accountability of government to citizens; and grant greater autonomy to regions and groups.
The energy sector is an important part of the World Bank Group Country Partnership Strategy (FY14-18), which highlights the need for economic growth to take off at rapid, sustained rates and in sectors that are most likely to reach the poorest. The strategy therefore promotes three domains of engagement: competitiveness and sustainability; protecting the vulnerable and helping them develop their potential; and building consistency and equity, as a long-term goal that has devolution at its core.

Sectoral and institutional Context

Recognizing the complementary role that the power sector plays in economic growth and poverty reduction, the successive governments in Kenya have undertaken milestone reforms since 1993 when the country's first Energy Sector Policy Framework was developed. The key thrust of this framework was to separate policy function from commercial functions, adopt cost reflective retail tariffs, and liberalize generation by introducing private sector participation in generation investment.

A transformative policy and legislation – the Energy Policy and Energy Bill – is currently awaiting parliamentary approval. It is expected to align the policy and regulatory framework of the sector with the 2010 Constitution's requirements for devolution of electricity services and greater accountability in the sector. Key changes will include: (i) an obligation for the national and county governments to provide affordable energy services to all citizens; (ii) sharing of roles of electricity planning, development, services, and regulation between the two levels of governments (i.e., national and county); (iii) transparent and competitive process for licensing of renewable energy natural resources; and (iv) open access over transmission and distribution networks and periodic review of electricity market design with a view to enhancing competition.

There has been much progress to date in the energy sector. Generation capacity stands at 2,300 MW, dominated by geothermal and hydro resources at 64 percent. The electrification rate, estimated to be as low as 23 percent in 2009, stands at close to 50 percent – KPLC counts 4.2 million households as their consumers. The sector operates on commercial principles supported by transparent financial relationships between the sector utilities and cost reflective retail electricity tariffs. KenGen and KPLC are listed on the Nairobi Stock Exchange with an important share of private ownership (30 and 49.9 percent, respectively), which has ensured availability of continuous audited financial statements. Furthermore, since 1997, the country attracted significant private participation in generation: currently there are ten IPPs that account for approximately 30 percent of installed generation capacity (over 658 MW) with US$2.4 billion in private equity and commercial loans mobilized to finance privately owned power plants. Their sustainability – the first two privately owned generation operations were commissioned in 1997 – has been underpinned by stable sector investment conditions.

The Government of Kenya (GoK) has set ambitious targets to scale-up investments across the sector value chain. The 2013 strategic plan of the Ministry of Energy and Petroleum (MoEP) targets an increase in generation capacity by over 5,000 MW and 4,600 kilometers (km) of new high voltage (HV) transmission lines by 2017. However, most projects are delayed and only about 800 MW will be delivered within the timeline. In parallel, the GoK aims to increase electricity access to 70 percent by 2017 and 100 percent by 2020.

The GoK recognizes that a number of issues need to be streamlined to realize such a scale-up. First, expanding the generation and transmission assets will require, at least, US$9 billion by 2019, which translates into US$1.5 billion per year over the next six years. Second, doubling the electrification rate over the next four years will require a careful planning process to optimize the use of available resources, a high degree of coordination at the institutional level, a clear and transparent mechanism to involve the private sector in the process, and the availability of resources to make investments happen. Beyond the optimization of the planning process, financial resources will need to be available to implement the universal access programs – either through grid extension or a set of off-grid alternatives. A share of these resources can come from existing users via levies on electricity consumption or similar measures, but a significant share most probably will have to be financed by a combination of national treasury resources and the international community. Finally, if private participation and market competition is to be bolstered, new primary and secondary legislation will likely be required, as well as capacity building for ERC and the MoEP to ensure that the design of the market mechanisms promotes rational, fair, and transparent competition among the market players.

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent

The project has two development objectives:

(a) increase the capacity, efficiency, and quality of electricity supply; and

(b) expand access to electricity in urban, peri-urban, and rural areas

III. Project Description

Component Name

Component A: Geothermal Generation

Comments (optional)

The AF will provide additional IDA to support the cost increase in the contract for Olkaria I and IV steam gathering and distribution system works. The contract is between the implementing agency, Kenya Electricity Generating Company Ltd (KenGen), and the contractor “Sinopec International Petroleum Service Corporation” (SINOPEC) of Beijing China.

Component Name

Component C: Slum Electrification

Comments (optional)

The AF will provide additional IDA support (and complementary GPOBA financing of US$3 million) to finance, through an output-based mechanism, the connection of an additional 54,000 low-income households in Kenya’s slums. It will be implemented in accordance with the current implementation arrangements. Under the AF, the level of IDA and GPOBA subsidy will amount to $250 per slum connection.

Component Name

Component D: Sector Institutional Development and Operational Support

Comments (optional)

This component includes four major activities:

i) Capacity building on environmental and social safeguards for relevant sector entities

ii) Capacity building on health and safety for relevant sector entities
iii) Monitoring and evaluation system for slum electrification including consumer awareness activities for slum consumers
iv) Feasibility Study for Olkaria VII, including a technical, environmental and social assessment

IV. Financing *(in USD Million)*

Total Project Cost:	71.00	Total Bank Financing:	68.00
Financing Gap:	0.00		

For Loans/Credits/Others	**Amount**
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	68.00
Global Partnership on Output-based Aid	3.00
Total	71.00

V. Implementation

The AF will be implemented with the same arrangements established for the parent project (KEEP) with the exemption of REA which will not be an implementing agency in this AF. More specifically, Ministry of Energy and Petroleum, KenGen and KPLC will remain the implementing agencies with the same roles and responsibilities as envisaged under the KEEP. The proposed FM still meet the minimum requirements for financial management under OP/BP 10.00.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✕	
Natural Habitats OP/BP 4.04	✕	
Forests OP/BP 4.36		✕
Pest Management OP 4.09		✕
Physical Cultural Resources OP/BP 4.11	✕	
Indigenous Peoples OP/BP 4.10		✕
Involuntary Resettlement OP/BP 4.12	✕	
Safety of Dams OP/BP 4.37		✕
Projects on International Waterways OP/BP 7.50		✕
Projects in Disputed Areas OP/BP 7.60		✕

Comments (optional)

VII. Contact point

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