

## **African Dev't Bank Rejects Etio-Djibouti Power Additional Loan**

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The African Development Bank (ADB), the major financier of the Ethiopia-Djibouti Power Interconnection Project, rejected an additional 40.8 million dollar loan request from the governments of Ethiopia and Djibouti. However, the Bank has approved three international companies - French ETDE, Indian Kalapa-Taru and Italian Siemens - short-listed by the joint committee of the countries for the project construction.

The international companies were chosen for the construction of transmission lines and substations intended for the hydroelectric power Ethiopia is planning to export to Djibouti and electrification of Ethiopia border towns.

Eskindir Alemseged, infrastructure expert at ADB, told Fortune that the Bank notified the two countries to finance the projects from their own coffers despite their request for extra funds.

Envisaging demonstrating ways in which Ethiopia could export power to Djibouti, the Ethiopian Electric Power Corporation (EEPCo) prepared a Power Planning Study in 1982 and finalised a feasibility study for the interconnection of the Ethiopia-Djibouti Power System in 1989 that was subsequently accepted by the governments of the two countries.

The two countries jointly requested ADB to finance the project on credit in November 2002; Ethiopia requested 30.4 million dollars and Djibouti 25.6 million dollars. Having examined the request for two years, ADB approved the loan in December 2004.

Established in 1964, ADB is a regional multilateral development finance institution. The Côte d'Ivoire-headquartered Bank engages in economic and socially directed projects throughout the continent.

EEPCo and Electricite de Djibouti (EdD) hired two consultant firms; PB Power and RSWI to supervise the projects. A study and design made by these consultants with detailed financial analysis revealed that supplementary budgets were essential as international price increases of steel and electric materials depreciated the value of the initially set budget, and 40.8 million dollars extra budget was requested.

Moreover, the two countries' electric utilities aimed to be a single circuit transmission line. However, Djibouti's power demand increase necessitated a change to a double circuit transmission line.

The two consultants - PB Power and BSWI - are revising the system study including the demand forecast reflecting the present situation in Ethiopia and Djibouti, according to the report released by the joint committee of the two countries in early July.

The July 2007 loan EEPCo and EdD requested included 22.5 million dollars for Ethiopia and 18.2 million dollars for Djibouti.

"The reasons for the request of the supplementary budget is convincing as it is due to the payment demanded by the contractors," said Eskindir. "However, we found it unacceptable."

"The basic thing which is necessary to obtain the required sum of money is the commitment that the governments of the two countries have," Mihiret Debebe, EEPCo general manager, told Fortune. "The power ministers of Djibouti and Ethiopia have signed an agreement in the two countries' ministerial committee meeting held in Addis Abeba last month to put strong effort to fulfil the deficit."

As the Bank demanded a confirmation that the financing made earlier would be used for the targeted project, the assurance reply has been sent to ADB.

"ADB informed us to cover the project costs on our own and that it would refinance the project if any deficit occurs," Mihiret added. He hopes that ADB would finance the project if these countries fail to finalise it due to a lack of funds.

On the other hand, the Bank gave the green light for the two countries to pursue negotiations with the three contractors they chose.

It was in January 2007 that EEPCo and EdD floated a tender to hire contractors for the construction of 230Kv and 63Kv transmission lines for Ethiopia and Djibouti, the construction of a substation in both countries and the electrification of border towns of Ethiopia.

For the transmission line construction, the Spanish Cymi-Socoin, French ETDE and Kalap-Taru and KEC, both Indian submitted their bid offers. Having evaluated the technical capacity and financial offer of the bidders, EEPCo and EdD short-listed Kalap-Taru which offered 30.8 million dollars. Cymi-Socoin, ETDE and KEC offered 41.3 million dollars, 36.9 million dollars and 48.1 million dollars, respectively.

For the construction of substations in Djibouti and Ethiopia, three companies competed; Cymi, ETDE and Siemens from Italy offering 31 million dollars, 31.2 million dollars and 30.6 million dollars, respectively. Siemens was therefore shortlisted.

For the electrification of border towns, only two companies submitted their offers; ETDE and KEC. The former was shortlisted offering 12.4 million dollars, lower than the 16.2 million dollars offered by the latter.

It was last month that EEPCo and EdD requested the approval of the short-listed companies so that subsequent negotiations and award would be undertaken. The Bank has approved the companies' venture with the two countries last week.

Girum Kebede, project manager of the Project Implementation Unit, set up for the power interconnection project told Fortune that negotiations would ensue with the short-listed companies as of this week.

According to the schedule, the Ethiopia-Djibouti Interconnection project would go operational in 2009. An estimated 36,000 customers are expected to get hydroelectric power in Djibouti, while over 8,600 people would be beneficiaries of the project in border towns of Ethiopia.

When the project is finalised, Djibouti, who currently generates power using diesel generators, is expected to pay 80 million dollars annually for the hydroelectric power the country imports from Ethiopia.