

Common Format for Project/Program Concept Note for Applying Resources from the SREP Competitive Set-Aside (Round II)

1. Country/Region:	Kenya/East Africa	2. CIF Project ID#:	N/A
3. Project/Program Title:	<i>Kenya Climate Venture Facility (KCVF) Project</i>		
4. Date of Endorsement of the Investment Plan:	September 8, 2011		
5. Funding Request (in million USD equivalent):	<i>Grant: US\$0.8 million (technical assistance)</i>	<i>Non-Grant (loan, equity, guarantee, etc.) US\$6 million (guarantee)</i>	
6. Implementing MDB(s):	IBRD	<input type="checkbox"/> Private sector arm <input checked="" type="checkbox"/> Public sector arm	
7. Executing Agency:	Kenya Climate Innovation Center (KCIC)		
8. MDB Focal Point and Project/Program Task Team Leader (TTL):	<i>Headquarters- Focal Point: Gevorg Sargsyan, Program Coordinator, Climate Investment Funds (CTF, SREP)</i>	<i>TTL: Jonathan Coony, Program Manager, infoDev Climate Technology Program</i>	

I. General Project/Program Description: Provide a summary description of the project, objectives, and expected outcomes. Which sectors would be targeted? Also, provide information whether this will be a solely private sector project, a PPP, or a public sector project financing private sector entities

The project is to establish an innovative private sector financing facility, the Kenya Climate Venture Facility (KCVF)¹ to provide seed and early stage financing to promising start-up and early-stage firms developing innovative and profitable renewable energy and climate technology businesses for Kenya.² The request is to provide (i) risk mitigation solution in the form of a guarantee to attract other investors to the KCVF and co-investors into individual investments made by the Facility in the amount of US\$6 million, and (ii) technical assistance grant of US\$800K to support these companies including capacity building, strategy and business development and general mentorship.

¹ The first phase of the Facility investment intends to focus on Kenya with a possibility of expanding into other East African countries.

² While KCVF will be allowed to invest in firms working in non-renewable sectors (such as water supply for climate change mitigation), its primary focus will be renewable energy in Kenya. A specific accounting window will be established to ensure that all SREP funds are invested in renewable energy in Kenya.

The KCVF will be part of the Kenya Climate Innovation Center (KCIC, www.kenyacic.org/) which incubates start-up and early stage renewable energy and climate technology companies with a range of services including proof-of-concept grants (US\$25k - US\$100k), business advisory services and training, access to technical and office facilities, information and international linkages. The KCIC was launched in September 2012 in Nairobi, and already supports more than 80 firms developing innovative business models and technologies in renewable energy such as solar lighting and homes solutions, solar pumps for irrigation, biogas solutions, waste-to-energy briquettes and efficient cook stoves. The KCIC is strongly supported by the Kenyan government and prominently featured in the country's National Climate Change Action Plan (NCCAP).

The KCIC is part of the infoDev³ Climate Technology Program (CTP, www.infodev.org/climate). The CTP uses innovative, private sector development approaches to promote pioneering technologies and business models that attract investments, create jobs and address climate change. In addition to global activities, the CTP has already launched four CICs (Kenya, the Caribbean, Ethiopia and South Africa) with four others to follow (India, Vietnam, Morocco and Ghana).

The KCVF is the next phase of KCIC with a mandate to support start-up and early stage firms in renewable energy and climate technologies with access to finance. KCVF will support these companies in the next stage of their development when they require financing for further market testing and business model validation, leading to a full market roll-out. The investment target will be those innovative companies that have the greatest potential for commercial viability and also create significant social, economic and/or environmental impact. **KCVF will do this by investing patient capital (in the form equity, debt and related instruments) along with high engagement management and technical assistance.** Currently, traditional forms of financing (banks and equity funds) are not available to this target group given the risk and small ticket size associated with them. This market barrier is particularly acute for companies working in climate-related sectors which can include newer technologies and/or business models which financiers are not familiar with. **KCVF will thus address this access to financing gap for early-stage companies.**

The objectives of the project are:

1. Finance and develop early stage high growth and impact potential companies active in renewable and climate technology areas;
2. Catalyze private and other funding sources to support growth and development of such companies; and
3. Capture and disseminate lessons learned on innovative technologies and business models.

80-90% of KCVF's investments and activities will be in the renewable energy sectors involving solar, biogas, biomass, wind and hydro based technologies. Investments areas will include: lighting/electricity for households and small businesses, irrigation, cook-stoves and heating for households, and renewable energy for industrial use. Other climate related sectors will include water and sanitation and environmentally sustainable agriculture. SREP funding will be used to support investment in renewable energy companies only.

³ infoDev is a global partnership within IBRD's Finance and Private Sector Development vice-presidency supporting SMEs and technology innovation in developing countries.

This is principally a private sector project with both the implementing agency and ultimate beneficiaries (early stage companies) being private sector players.

II. Context and market: Provide brief explanation of country/sector context and an overview of the market (product nature, supply and demand status, prices, and competition. In the absence of other comparable products, provide a brief explanation on how the proposed product will substitute for existing products and the benefits from a climate standpoint, and the prospects of commercial viability. If proposing a new business model, provide information of comparable to business as usual). Also, provide an overview of current market barriers and how will they be reversed by the proposed project.

Countries that pro-actively develop, commercialize and deploy novel climate-friendly technologies – rather than being simple technology takers – can benefit from economic development and competitiveness due to participation at earlier stages of the innovation value chain. Kenya has the potential to become a leader in Africa to develop renewable energy and climate technology solutions locally that address national needs but also address region-specific issues. This would contribute to low-carbon growth, increased access to energy as well as economic development, job creation, and climate resiliency. The primary sectors include: renewable energy and energy efficiency, water supply, and climate-smart agriculture. The immense size of this market underscores the potential gains:

- Global new investment in renewable energy and fuel generation reached \$269 billion in 2012 and is expected to reach \$460 billion by 2030.⁴
- 80% of Kenyans live without access to basic energy services.
- Over 85 percent of the population rely on traditional fuels such as wood, charcoal, dung, and agricultural residues for cooking and heating⁵
- Over 79 percent of households use kerosene-based lamps .
- Kenya is considered one of the most prominent sub-Saharan countries in terms of renewable energy potential.⁶
- The market opportunity for households that use a paraffin lamp for Kenya, Ghana and Ethiopia combined is \$635 million/year.
- 550 million people worldwide have mobile phones but no reliable way to charge them, creating a large market segment to serve with advanced off-grid clean technologies.⁷

However, **one key factor inhibiting innovative ventures in Kenya is lack of appropriate financing for early-stage companies seeking investments in the range \$100k-1 mm.** Entrepreneurial companies are essential to drive innovation, but many early-stage yet promising companies cannot find the investment

⁴ Bloomberg New Energy Finance. 2011. Global Renewable Energy Market Outlook

⁵ Lighting Africa. 2010. *Solar Lighting for the Base of the Pyramid- Overview of an Emerging Market*

⁶ UNEP. 2012. *Global Trends in Renewable Energy Investment.*

⁷ Green Power for Mobile. 2011. *Bi-annual Report*

needed to develop and scale-up their innovative solutions in renewable energy. Companies can usually obtain grants up to approximately \$100k and more established companies with proven track record and collateral could likely secure approximately \$2 mm and up in more commercially-minded investments. However, start-up and early-stage companies seeking investment from \$100k - \$1mm have a difficult time to access appropriate financing. Most private investors are reluctant to invest in early-stage clean-tech firms in Kenya⁸ due to: (i) the high transaction / due diligence costs relative to transaction size, and (ii) the risks associated with early-stage companies. Similarly, the Kenyan banking sector remains very conservative in its lending practices given primarily to larger companies that meet their collateral and other requirements. As a result, innovative and high-potential early-stage firms in renewable energy are at great risk of stalling in the so called “valley of death” between the ceiling of their initial fundraising and the floors of most commercial investors and financiers. With nowhere to turn for funding, these companies face stagnation or failure.

The KCVF will directly address this access to finance barrier for early-stage renewable energy companies with appropriate investment financing combined with management and technical assistance.

III. Detailed Project description and Innovation:

- a. Innovation** - how the project is innovative in terms of business model, financial instruments or structure, market creation, and/or new partnerships, and how the innovation will add value to the project

The principal purpose of both KCIC (the incubator) and KCVF (the early-stage financing facility) is to develop and grow innovative business models and technologies in renewable energy and climate technologies. All companies that are currently supported by KCIC - and those that will be invested into by KCVF - will be selected due to the innovative nature of their business model and/or technology. In contrast to standard energy generation projects using renewable sources, KCVF will develop renewable energy technologies that will have a much wider application for households, farmers, small businesses and industry.

More importantly, KCVF itself will pioneer an innovative financing vehicle that addresses a well-known problem of capital needs of early-stage renewable energy technologies. The KCVF will be **a pioneering financing vehicle of in the East Africa region exclusively dedicated to the financing and development of early-stage renewable energy and climate-tech companies**, specifically addressing the market failure of the acute seed/early-stage financing gap in Kenya.

A principal innovation in the KCVF investment model is its **close collaboration and strong partnership with the KCIC**. The KCIC – apart from its core business support activities which include technology development, business plan development, access to market intelligence, and providing small “proof of concept grants” - will support KCVF in the following ways:

- Pipeline readiness and pre-screening – Start-up and early-stage companies being developed by KCIC

⁸ World Bank Investment Funds Group. 2013. *East Africa SME Private Equity/Technical Assistance Fund Pre-Feasibility Study*

will be a principal source of deal flow for the KCVF. The KCIC will also be able to vet/screen them for suitability for KCVF investment as per its funding criteria. At present, 25 of the 80 companies currently being supported by KCIC are seeking to raise their first round of investment capital and would be potential pipeline for KCVF. Additionally, KCIC also has built a network of other early-stage renewable energy companies that were too mature for KCIC's incubation support, but would also be promising pipeline for KCVF. This ready-made pipeline from KCIC will reduce the KCVF's time and cost in sourcing deal pipeline and screening.

- Post-investment management & technical assistance – The KCIC already has the infrastructure to build capacity and support to start-up and early-stage renewable energy/climate-tech companies. For companies that KCVF invests in, KCIC will continue to provide management/technical assistance alongside the KCVF team to the portfolio companies in the Facility. Additionally, KCVF investment team will provide/facilitate mentoring/coaching for investee entrepreneurs.

Another aspect of innovation of the project is the **leveraging or “crowding-in” of additional sources of capital** that are interested in financing renewable energy/climate-technology companies but are unable/unwilling to do so because of the smaller-ticket size and higher financial risk associated with early-stage RE/CT companies. KCVF's hands-on investment model will reduce transaction/investment cost for other investors who may co-invest alongside it in individual portfolio companies. Additionally, the project envisions risk-sharing support to external investors to enable them to provide financing for the build-out of KCVF portfolio companies.

Successful demonstration of the KCVF investment model will potentially catalyze replication, with similar investment approaches for early-stage companies - in renewable energy and other sectors – in African and other countries around the world.

b. Technology, Product, and/or Business Model: Provide description of the technology, the technology provider if identified, whether it has been tested, commercialized and viable commercially. If the project does not involve a technology, provide a description of the business model and its structure.

The business model of KCVF is explained below.

- Initial Capitalization - KCIC will capitalize KCVF and serve as anchor investor/sponsor. KCVF will legally be an open-ended investment vehicle focusing on the early-stage renewable energy and climate technology sectors.
- Investment Goals - KCVF will invest in start-up and early-stage renewable energy and climate-tech companies. These will include but not be limited to KCIC clients. The investment goal will be to target companies that have potential to generate a positive financial return on investment while also creating significant social, environmental, and/or economic impact.
- Investment Instruments and Approach - Individual investments will consist of equity, equity-like debt and other innovative non-grant instruments (such as revenue based financing), and priced on commercial terms using a disciplined investment approach. However they will be more patient and flexible in structure than traditional commercial sources of capital, given the early stages of the companies being invested and their need for more tailored and flexible sources of capital. Such

investment principles are being effectively applied in the emerging field of impact investing.

- **KCVF Management**– The management of the Facility will be done by an investment firm with a local presence and experienced in SME and/or impact investing. The Facility manager will i) source, analyze and structure/close individual investments, ii) provide post-investment monitoring and support, iii) administer governance and reporting requirements iv) bring outside investors into the project at different levels.
- **Portfolio Company Management/Technical Assistance** – As mentioned earlier, start-up and early stages companies, while having promising technologies and business models, need a lot of hand-holding and intensive support in their earlier stages of development to be able to realize their commercial and impact potential. As such, a key component of the KCVF model is to provide intensive management and technical assistance to KCVF portfolio companies.
- **“Crowding-in” Additional Capital** – Another important component and success factor for the KCVF is **leveraging, or “crowding in”, other financing, public and/or private**, to make investment in target companies. Apart from institutional donors as a source of funding, another source of financing is impact investors who seek to address social and/or environmental problems while also making reasonable financial returns. There is strong appetite from impact investors for innovations to improve effectiveness and sustainability in Africa, including those that seek to direct the power of private markets in the areas of SME financing, renewable energy and climate change. Such investors also recognize the importance of early-stage businesses that are developing new technologies and business models in these areas. However, they struggle to make investments in these start-up and early-stage companies because of the higher risks of failures associated with these companies. With appropriate risk-sharing support - as requested from SREP in the form of a first-loss guarantee facility – these two categories of investors can be unlocked.

c. Increased supply of renewable energy or increased access to modern energy services, as applicable: report on one of the following, depending on the main objective of project.

- i. Increased supply of renewable energy. Provide calculation of newly installed capacity (MW) and power generated (MWh/yr) from renewable energy sources⁹
- ii. Increased access to modern energy services. Provide calculation of increased number of women and men, businesses and community services connections to modern sources of energy, inclusive of grid and off-grid connections, and other non-power modern energy services/technologies, per US\$ of SREP funds requested. This indicator should be total women and men, businesses and community services¹⁰ with connections estimated over the life of the project

⁹ For consistency across proposals, we suggest that we stipulate the assumption regarding average capacity factors for each RE technology; e.g., 30% for wind, 20% for solar PV; 85% for geothermal; 50% for hydro; 60-80% for biomass. (xx MW installed X 8760 hours X capacity factor = annual MWh)

¹⁰ In line with the SREP Revised Results Framework approved in June 2012 if households are counted instead of people, the assumptions about household size should be stated in the document.

Although the aggregated supply of renewable energy generated by KCVF portfolio companies over time will be meaningful, the principal impact of KCVF's impact will be in enabling increased access of lower income households, farmers, as well as small businesses and industry to modern energy technologies based renewable sources. These include off-grid distribution of energy (for power and heating) through household level and micro-grid solutions, particularly targeting those areas which are unlikely to be connected to the Kenyan national grid in the near term (and therefore require an alternative distribution model). Additional beneficiaries will be farmers and small businesses (particularly in non-grid connected areas) who will have access to reliable and cheaper sources of energy to increase their productivity. A final beneficiary will be industry which would have the option to switch from fossil fuel based energy sources to more cost-effective renewable energy.

- d. Increased supply of renewable energy:** provide calculation of new MW produced from renewable energy as a percentage of total energy available in a country;
- e. Commercial sustainability:** Provide an overview of how the plan will be able to stand alone in subsequent iterations or on a larger scale, without the need for additional concessional funding.

Commercial sustainability in this project can be seen at two levels:

- First, individual portfolio companies by KCVF will be invested in with a goal for them to reach commercial sustainability and scale. While such companies will get more flexible financing (combined with concessional financing through SREP) and management assistance, these forms of concessional support will not be needed once these companies move into growth phase and are able to tap commercial forms of capital on their own.
- Second, while guarantee support from SREP is needed to bring in outside investors into the project (at the Facility or portfolio company level), once such investors are able to develop more comfort investing in these types of companies, the guarantee levels could be reduced for subsequent rounds, eventually leading to a stage where such investment can be leveraged without any guarantee support.

- f. Other benefits:** Describe gender impact, an indication of GHG co-benefits, and other development co-benefits as appropriate.

Other benefits from investments supported by the KCVF facility include increased energy security to vulnerable and small communities and enhance socioeconomic conditions, decrease in local air pollution (e.g., displace kerosene consumed by households in rural areas), creation of employment opportunities along the supply chain, promotion of productive uses of energy which can have dramatic effects on women's levels of empowerment and contributes to improving economic development of small enterprises and beneficiary communities, leveraging of additional capital for domestic investments, and accelerated rate of technology adoption.

IV. Rationale for SREP funding: Provide an explanation as to why the idea should receive the funding and how it would further advance the objectives of the endorsed investment plan.

Broadening access to modern energy technologies (through different uses) is a key component of the Kenya SREP Investment Plan and the GoK National Climate Change Action Plan. The GoK has already recognized the important role of the KCIC in achieving its energy and climate change objectives:

“Kenya has recently established the first Climate Innovation Centre (CIC) in the World at the Strathmore Business School. Dedicated to supporting climate change technologies and research and development entrepreneurs, its main focus will be on innovative technologies in the area of energy, agriculture and water supply that will contribute to Green Development and growth. The CIC will play an important role in developing green technologies in Kenya and will target solutions that are relevant across the East Africa Region.”

As explained in earlier, two key components of the KCVF project are the ability to i) leverage outside investors to provide capital – alongside the Sponsor contribution - to its portfolio companies; and ii) provide extensive management/technical assistance to portfolio companies to build their capacity, validate their business models, and prepare for the growth phase. SREP funds will be critical to realize these components of the business model:

- “First loss Protection” through Guarantee Funding– Risk mitigation support in the form of “first loss” guarantee on a portion of investment from SREP funds will enable additional sources of capital to be available for target companies. While potentially different types of investors could come in, the most likely candidates are the growing group of regional and global impact investors who are specifically interested in the East Africa, including in the development of scalable and commercially viable clean-tech businesses that generate positive social or environmental impact. However, one of the two main reasons they tend to shy away from investing in start-up/early stage companies is the higher financial risk associated with these companies. **The US\$ 6MM guarantee support from SREP funding will allow KCVF to leverage outside capital to these companies.** It is also important to note that the experience of outside investors (enabled through the SREP support) will give them more exposure and comfort to investing in earlier stage innovative businesses, there-by strengthening the early-stage investing eco-system in Kenya.
- Management/Technical Assistance Funding - In addition to financing, these companies will require a lot of support in the form of management/technical assistance. Given their stage of development, heavy hand holding is required including strong mentoring, capacity development, strategy and business model development and expanding industry networks, just to name a few. **SREP funds of US \$800K will be used for provision of these tailored technical assistance and business advisory services to the companies.**

V. Consistency with Investment Criteria: Provide information how the proposed project meets the investment criteria for the SREP Investment Program, including:

- Increased access to energy through renewable energy sources – A principal aim of the project is to

provide increased access to energy through renewable energy sources, particularly for under-served segments of the Kenyan population. A key focus will be on communities and households that are not connected to the grid, giving them first-time access to power/electricity through off-grid solutions, or enabling them to switch from fossil fuels to renewable energy sources (e.g. through RE cook stoves). Given the focus of KCIC clients (and potential KCVF investees), most if not all of the investment will directly increase access.

- Increased installed capacity from renewable energy sources - While the installed capacity may not be the same as that of mid-sized on-grid renewable energy power project, it is expected that the combination of micro-grid and home and industry based renewable energy solutions will lead to increased installed capacity of renewable energy technologies.
- Low emission development – With an energy mix predominantly based on hydro and diesel-based systems for power generation, Kenya is highly vulnerable to changes in weather conditions and oil prices. Furthermore, the majority of markets the KCVF portfolio companies will target are off-grid where inefficient polluting diesel engines (and kerosene or wood) are remain the alternative. Kenya's continued economic growth in a business-as-usual manner will increase the country's demand for energy. KCVF will contribute to Kenya's decision to propel its future socio-economic development following a low carbon path that is more resilient to climate change (e.g., droughts) and increasing oil prices. For instance, projects enabled through the Facility will contribute to the gradual substitution of traditional fuel-based for renewable energy solutions, which will help cope with growing demand for energy especially in rural areas both for household consumption and for local productive activities in a climate-friendly manner.
- Affordability and competitiveness of renewable sources – Given the “increased access” focus of current KCIC clients and other early-stage companies, a key aspect of their innovation is that they have made the pricing affordable to their target customers and competitive with fossil fuel based alternative (such as diesel and kerosene), particularly for lower-income rural households, farmers and small businesses, whose purchasing power is quite limited. This has been done by either technology innovation which makes the products more affordable, or to bring in innovative consumer financing mechanisms. For example, two of the current KCIC clients have developed pay-as-you-go technologies (PAYG) along with their products whereas others have partnered with banks/MFIs to provide consumer financing to their customers.
- Productive use of energy – KCVF will also enable productive uses of energy in order to catalyze the economic development and productivity of the beneficiary communities. For instance, the supply for electricity will enable small enterprises to increase their productivity by switching from manual to automatic processes for the delivery of products/services. The increased output will allow small enterprises to serve customers in a wider area, enhancing the villages' economic base. Similarly, farmers will be able to have cost-effective and reliable energy sources for agricultural purposes. Meanwhile, increased access to non-polluting power for lighting, cooking, and other household and productive purposes will have significant effects on people's education, literacy, nutrition, health, economic opportunities, and involvement in community activities.
- Economic, social and environmental development impact – KCVF investments will trigger impact at the economic, social and environmental development levels. The proposed facility will accelerate the start-up and growth of innovative climate technology enterprises in Kenya, which will contribute to green economic growth and employment generation. By diversifying the energy supply mix prevailing in the country, the proposed facility will also enhance energy security in the country,

therefore increasing Kenya's resilience to changing weather patterns. The gradual substitution of diesel-based power and kerosene with clean and more affordable renewable energies will have positive environmental impact, as well as result in cost savings that can be used to foster socio-economic development in other sectors.

- Economic and financial viability – KCVF will pilot the development of a financing mechanism that enables the private sector to contribute to Kenya's low carbon economic development by targeting small and early stage enterprises that cannot otherwise be easily engaged in national climate change strategies and programs, nor enjoy ready access to finance from climate finance mechanisms. The focus on renewable energy investments, which produce least cost power as compared to fossil-fueled alternatives, will ensure solid economic rates of return.
- Leveraging of additional resources – In addition to the MDB contribution for the project, the leveraging of SREP funding over time will come in three ways:
 1. Investment into KCVF – The proposed SREP funding to provide “first-loss” risk mitigation support to outside investors into KCVF, will enable the KCVF investment pool to increase beyond the anchor contribution of \$4.5 MM by KCIC. Such funding will likely come from impact investors.
 2. Co-investment – KCVF will aim to bring in co-investors into individual deals, by a) taking the lead on sourcing, diligence, and post-investment assistance (to reduce the cost of small ticket deals for these co-investors); and b) providing partial risk mitigation support - through the requested SREP funding - on the individual investment made by the co-investor. Both Kenya and regional based impact investment and SME fund managers have indicated an interest to co-invest alongside KCVF if “first loss” coverage were provided.
 3. Follow-on capital – Once portfolio companies graduate past KCVF into the “growth stage”, their chances of raising larger growth-stage investment (from banks, SME/impact investment funds and DFIs) would increase considerably, as such companies would be a source of “deal flow” in Kenya from these capital providers. KCVF will facilitate these follow-on deals between its companies and potential follow-on investors.
- Gender considerations - Exploitation of renewable energy has a great potential to contribute towards gender-equity and access to energy services in Kenya. Reduced drudgery for women and increased access to non-polluting power for lighting, cooking, and other household and productive purposes can have dramatic effects on women's levels of empowerment, education, literacy, nutrition, health, economic opportunities. These improvements in women's lives can, in turn, have significant beneficial consequences for their families and communities through access to education; media and communications in schools and at home; and better medical facilities for maternal care, including refrigeration and sterilization. A more detailed impact assessment will be carried out during project preparation.
- Co-benefits of renewable energy scale-up – Co-benefits from investments supported by the KCVF include increased energy security to vulnerable and small communities and enhance socioeconomic conditions, decrease in local air pollution (e.g., displace kerosene consumed by households in rural areas), creation of employment opportunities along the supply chain, promotion of productive uses of energy which contributes to improving economic development of small enterprises and beneficiary communities, leveraging of additional capital for domestic investments, and accelerated rate of technology adoption.

VI. Financial Plan (Indicative):

Source of Funding	Amount (USD million equivalent)	Type of instrument (equity, debt, guarantee, grants, credit lines, etc.)	Percentage (%)
Project developer			
MDBs	4.9	Grant	15%
SREP	6.8	Guarantee and technical assistance	21%
Local banks			
Other investors	20	Equity, debt	63%
Bilaterals			
Others			
TOTAL	31.7		100

The CTP will fund the project in the amount of US\$4.9 million. As mentioned above, it is expected that an additional US \$20 MM will be leveraged from other investors – co-investing with KCVF in individual deals, or investing directly in KCVF. The SREP contribution of US\$6.8 MM would consist of US\$ 6 MM for the guarantee support and \$0.8 MM for technical assistance grant funding. Additional funding from bilateral donors is also possible, although this has not been budgeted for.

VII. Implementation Feasibility: Provide information on the implementation feasibility of the proposed project and an estimated timeline for project approval (SREP Sub-Committee and MDB), implementation and completion. Demonstrating readiness includes: in place regulatory framework, evident institutional capacity, clear project ownership, implementation risk, or project design clarity.

Project Concept Note (PCN) Review meeting: May 2014

Expected SREP Sub-Committee approval date: October 2014

Expected MDB Approval date: December 2014

While further design and implementation preparation work needs to be carried out, the proposed project already has the following readiness features which are key to its successful implementation, and will enable a successful launch within 12 months following SREP Sub-Committee Approval:

- Initial Anchor Funding for the project through CTP Program is available in the amount of US\$4.9 million. This is expected to be disbursed to KCIC following MDB approval, for on-ward anchor investment in KCVF.
- Investment Pipeline for KCVF – Since its inception in September 2012, KCIC has been providing incubation support to over 80 renewable energy and climate technology companies; of these 25 are seeking to raise their first round of funding and many would be pipeline candidates for KCVF. Additionally, KCIC has built a strong network in the early—stage entrepreneurship community in Kenya which would provide an additional source of pipeline.
- Management/Technical Assistance Capability – As mentioned, KCVF will work closely with KCIC and its consortium partners to provide management/technical assistance to KCVF portfolio companies. Much of this capability already exists.
- Existing Government Support and Conducive Regulatory Environment - One of the consortium members of the KCIC is Kenya Industrial Research Institute supported by the government which plays a critical role in keeping the companies abreast of the changes in the laws relevant to their industry and in providing clarity on regulations and necessary knowledge vis a vis taxes and tariffs.
- Co-investment Potential - A few of the existing equity funds operation in Kenya expressed interest in co-investing into the deals. There are certain incentives build into the design of the facility. (1) first loss guarantee as a risk mitigating tool, (2) cost savings in the form of company due diligence/screening led by KCVF, (3) strong management support to these firms in the form of technical assistance.

VIII. Potential Risks and Mitigation Measures: What are the risks that might prevent the project development outcome(s) from being realized, including but not limited to, political, policy-related, social/stakeholder-related, macro-economic, or financial?

Risk	Mitigation Actions
Poor deal-flow	A significant portion of the deal flow will be through KCIC which will identify pipeline of potential investee companies that have already benefited from KCIC services and gone through de facto pre-screening. In addition to KCIC, other sources of pipeline generation would include (i) companies that approached KCIC but turned out to be too mature for the services that KCIC is currently providing and are ready for obtaining equity financing, (ii) potential investee companies sourced by Facility Manager.
In sufficient support from key	KCIC and its consortium partners have already begun to engage key

eco-system players	players in the Kenyan eco-system – from financial institutions, investors, government bodies, technology development institutes, and marketing and distribution channels – for its incubatees. These stakeholders will continue to be cultivated to act as support platforms for KCVF portfolio companies.
Leveraging capital from other investors into KCVF	<p>This risk will be mitigated at three levels: First, rather than raise all the outside capital into KCVF, this will be done incrementally as KCVF builds a track record and makes a few early-stage investments. Second, as mentioned above, partial principal protection in the form of a “first-loss” guarantee will help de-risk the capital provided by impact investors into KCVF. Third, to diversify its capital sources, KCVF will also tap donor funding to supplement capital provided by the impact investors.</p> <p>Other sources for attracting additional funding will include angel investors, donors and bilateral agencies.</p>
Inability to bring in co-investors	<p>This risk will be mitigated by providing upfront screening and due-diligence support, and leading post-investment support/monitoring that will help reduce the investment costs of co-investors. Additionally, the requested partial “first-loss” guarantee for co-investors will also help mitigate this risk, and draw in this source of capital for portfolio companies. As noted earlier, initial conversations with fund managers in Kenya have indicated an interest in co-investing in KCVF portfolio companies if appropriate challenges were addressed.</p>
Financial sustainability of portfolio companies and their inability to raise follow-on financing	<p>This risk is high as the investments are made at a very early stage which increases the risk of failure; a certain percentage of companies are certainly expected to fail. However, the portfolio companies will get hands-on investment support from the Facility Manager (with further technical support from the KCIC) to improve their financial sustainability prospects. We expect that strong selection at the outset combined with intensive handholding will enable 30-50% of the portfolio companies to move towards sustainability and growth. As these companies move into growth phase, the Facility Manager will facilitate them raising follow-on growth stage capital (equity and debt) that is more available in Kenya.</p>
Inability to engage qualified Facility Manager	<p>There are investment firms in Kenya that are interested in early-stage investing of \$100K-\$1.5M, and the most appropriate one will be selected to manage the KCVF. Additionally, some TA may also be provided to the selected Facility Manager given that KCVF is a pioneering investment facility.</p>