KOSAP Solar Debt Facility

Information Pack

June 2019

Prepared by the KOSAP Component 2 Facilities Manager

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1. KOSAP Background

1.1. Introduction to KOSAP

Driven by the imperative to provide equal opportunities across the entire Kenyan territory as key to achieving Kenya's Vision 2030, and the national target of achieving universal access to electricity by 2022, the Government of Kenya (GoK) seeks to close the access gap by providing electricity services to remote, low density, and traditionally underserved areas of the country. The GoK intends to use US$150 million, in Kenya Shillings equivalent, of financing from the World Bank to deliver the Kenya Off-Grid Solar Access Project (KOSAP).

The KOSAP project promotes these objectives by supporting the deployment of clean cooking technologies for households, and the use of solar to drive electrification of households, enterprises, community facilities, and water pumps. The Ministry of Energy (MOE), Kenya Power and Lighting (KPLC) and the Rural Electrification Authority (REA) will implement the project in 4 components:

1. US$40M: Mini-grids for Community Facilities, Enterprises, and Households
2. US$48M: Stand-alone Solar Systems and Clean Cooking Solutions for Households
3. US$40M: Stand-alone Solar Systems and Solar Water Pumps for Community Facilities
4. US$22M: Implementation Support and Capacity Building

SNV in partnership with SunFunder is the Facilities Manager (KFM) for Component 2, which consists of two sub-components that is, sub-component 2A for Solar Service Providers (SSPs) and 2B, which is a challenge and Results Based Financing (RBF) fund for Clean Cookstoves Service Providers. SNV manages the RBF fund in sub-components 2A and 2B, while SunFunder serves as the KOSAP Debt Facilities Manager for sub-component 2A. The implementation period for the project started November 23, 2018 and ends on June 30th, 2023.

The underserved areas, which cover the geographical scope of the KOSAP project, are identified as 14 counties, deemed 'marginalized' by the Commission on Revenue Allocation (CRA). Due to the remoteness and sometimes dispersed nature of the target populations and considering the socioeconomic profile and lifestyles of those residing in these counties. The KOSAP project is designed to address high costs of provision of infrastructure services, low affordability of the potential users, and sustainability of service provision using an abundantly available renewable energy resource. These counties are: West Pokot, Turkana, Marsabit, Samburu, Isiolo, Mandera, Wajir, Garissa, Tana River, Lamu, Kilifi, Kwale, Taita Taveta and Narok.

1.2. KOSAP RBF & Debt Facilities for Solar Service Providers

The objective of subcomponent 2A, comprising the SSP RBF Facility and the Debt Facility for SSPs, is to support electrification of households using solar home systems (SHS) in 14 target counties where sufficient load clusters do not exist and SHS provide the best technical and financial solution. This will be done by catalyzing – through debt and result based incentives – a private sector-led, market-based approach to delivering off-grid access in the KOSAP Service Territories (KSTs). The SSP RBF and Debt Facility's target is to provide 250,000 households with new electricity connections by stand-alone solar PV systems in the 14 KOSAP Service Territories, thereby impacting the lives of 1.175 million people.

This sub-component is focused on establishing delivery mechanisms for off-grid electrification in the 14 target counties by leveraging market dynamics and innovations of solar off-grid companies currently operating in the core market (more densely populated areas of Kenya). To incentivize and accelerate the expansion of off-grid services in the KOSAP Service Territories (KST), sub-component 2A builds on existing successful private sector-led business models and focuses on extending their supply chains and sales infrastructure into more challenging markets within Kenya. It provides both results-based incentives, acknowledging that it is more costly and riskier for SSPs to serve these regions, as well as access to local currency debt. To cater for upfront investment needs.

Two financing instruments are made available to eligible SSPs:

(i) Results Based Financing in the amount of $12M to compensate SHS operators for initial, ongoing incremental and opportunity costs associated with an expansion of operations in the KSTs. The RBF will be available only in Kenya Shillings.

(ii) Debt facility in the amount of KES 3 billion to support up-front costs associated with getting hardware inventory into the market and medium-term consumer financing to enable households to pay off the systems over time. The debt will be available only in Kenya Shillings.

1.3. KOSAP Facility Manager

The role of the KOSAP Facilities Manager (KFM) is to administer on behalf of GOK, activities stipulated under Component 2 of the Project, notably a Result-Based Financing (RBF) for Solar Service Providers, and a challenge and RBF facility for Clean Solution Service Providers.

2. Debt Facility Criteria & Process

2.1. Overview

The KOSAP debt facility is a KES 3 Billion facility. Loans can only be used to finance the purchase of solar home system inventory and receivables financing in the 14 KOSAP Service Territories (KSTs)[1]. The KOSAP debt facility will offer loans ranging from KES 10,000,000 to KES 500,000,000, and will be tranched out[2].

It is important to note that the KOSAP debt facility will offer commercially-oriented terms[3], while being able to absorb additional risks that are unique to the 14 Counties in the KOSAP Service Territories (KSTs).

2.2. Minimum Criteria

- Tier 1 or Tier 2 multi point solar home systems (according to the SEforAll Multi Lighting Framework Tier system[4]) that meet Lighting Global Quality standards[5].
- As a rule of thumb, two-years demonstrated track record of providing solar access in Kenya, including proof of ability to sell, distribute, and provide after-sales support.
- Credible business plan and business model to sustainably serve KST markets beyond lifetime of project. Both "over the counter" (i.e. cash sales) and PAYG businesses qualify.
- Ability and willingness to track and share basic customer data (including how awarded funds have translated to KST sales) in database form that is acceptable to Debt Facility Manager, e.g. through adequate Customer Relation Management (CRM) /or Enterprise Resource Planning (ERP) platform.
- A company should be able to demonstrate that they are in compliance with all statutory requirements and amongst other things, they hold all necessary permits and licences, and are up to date with respect to their corporate and tax filings.
- Ability to fulfill information requirements and provide due diligence materials and subsequent monitoring information. Due diligence information requirements are contained in the next page. This includes having an inhouse accounting/ finance team (s) or outsourced accountants.
- The company must be a Kenyan incorporated entity with the requisite authorisations, including a board of directors and suitable management in place to ensure that the company operates as a going concern.

2.3. Loan Products

Three types of loan products will be available, as shown below.

Inventory Financing:

Short-term balance sheet loan for purchasing product.

- Tenor: 6- 12 months
- Amount: KES 10,000,000 +

Receivables Financing

Balance sheet (B/S) loan structured to match the complete working capital cycle of a PAYG Company

- Tenor: 1 to 3 years
- Amount: KES 25,000,000 +

Co-Lending

KOSAP has the ability to lend alongside other lenders into facilities via a syndication agreement whereby KOSAP will only finance the share of the facility that corresponds to inventory purchases (for inventory

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[1] The project will be implemented in 14 counties in the north and north-eastern parts of Kenya namely Garissa, Isiolo, Kilifi, Kwale, Lamu, Mandera, Marsabit, Narok, Samburu, Taita Taveta, Tana River, Turkana, Wajir and West Pokot.

[2] SSPs are encouraged to still contact the KOSAP Debt Facility Manager even if a loan smaller than KES 10,000,000 is required to receive guidance on other sources of debt potentially available and/or additional guidelines for accessing debt from KOSAP.

[3] KOSAP is not subject to Non-Banking Financial Institution (NBFI) interest rate cap.

[4] https://openknowledge.worldbank.org/bitstream/handle/10986/24368/Beyond0connect0d000technical0report.pdf?sequence=1&isAllowed=y

[5] Refer to: www.lightingglobal.org

financing) or units sold and future receivables (for receivables financing) in the KSTs. It can also participate in receivables financing via a Special Purpose Vehicle (SPV).

2.4. Process

A two-stage due diligence process follows confirmation that the loan applicant fulfils the minimum criteria. Each stage has corresponding information requirements as shown in Annex A.

The first stage will verify eligibility for a loan and the amount and terms requested. If the company is eligible, it will move to the second stage during which it will receive an indicative term sheet. If the company is not yet eligible, it will be deferred with recommended milestones to re-apply in the future. The average timeline for due diligence is five months, depending on the availability and quality of information requirements.

2.5. Fees and Pricing

- Indicative Interest rates: Range of 16% to 20% (KES) depending on risk outcome of the due diligence process
- Upfront/ Due Diligence Fee: 0%
- Legal Fees: Will be borne by the borrower.
- Loan documentation: Indicatively, 0.3% to 0.6% of loan size.
- Security documentation: Range of 1% to 1.4% of loan size for debentures[6] as prescribed by ARO (Advocates Remuneration Amendment Order, 2014).

2.6. Contact

For an introductory call or for more information please contact:

KOSAP Investment Officer, Susan Muchiri (susan@sunfunder.com)

Address:

KOSAP Office,

SNV Netherlands Development Organisation (SNV)

Ngong Lane, Off Ngong Road,

Jadala Place, 5th Floor, Room No. 5,

P.O. Box 30776 – 00100, Nairobi.

Telephone contacts: 0724 463355 / 0735 177992

Email: info@snv.org/ kosapfm@snv.org

2.7. Due Diligence Checklist

A	Due Diligence	Stage 1	Stage 2
	Business		
	Official name and jurisdiction of proposed borrowing entity and guarantors, if applicable	x	
	Business plan, executive summary or business overview including chart of corporate structure. *If a Technical Proposal has been prepared for SSP RBF this can be submitted for debt too.*	x	
	Business track record: # of units sold / deployed over the past 3 years (broken down by quarter or month if possible), including County and technology. *Include breakdown by KSTs if relevant.*	x	
	Business expectations: # of units expected to be sold / deployed this year (broken down by quarter or month if possible), including location and technology *Include breakdown by KSTs.*	x	
	References from customers, investors, or other parties, as appropriate		x

[6] In the case of debenture, the Advocates (Remuneration) (Amendment) Order, 2014 ("ARO") applies and the fee payable will be calculated based on a graduating scale which works out to ~1% of the loan. It is prohibited for a law firm to charge less than the prescribed amount. Typically, the legal fee are exclusive of VAT, Stamp Duty, government registration fees or registry searches and office disbursements. The associated legal fees for drafting and registering debentures are as follows: For a secured amount of KES 10,000,000 fee of KES 143,750; a secured amount of KES 50,000,000 a fee of KES 175,000; a secured amount of 55,000,000 a fee of KES 593,750; a secured amount of KES100,000,000 a fee of KES 1,053,750.

	Technical specification sheets, drawings, failure rates for the technology to be deployed		x
	CVs / bios of management team		x
	Passport copy of majority shareholders (or if the shareholders are corporate / institutional a KYC form).		x
	For PAYG: Portfolio health information- Summary of customer repayment, default, delinquency, and utilization credit data, as applicable	x	
	Financial		
	3 years of historical financials for the organization, including balance sheet, income statement, and cash flow statement.	x	
	Current year's management reports (balance sheet & income statement)	x	
	Unit economics information *(ideally during Phase 1 but can be completed during Phase 2 if this is unavailable)*	x	x
	3 years financial projections for the organization, including projected financing needs and cash flow projections for at least the next 12 months	x	
	Summary of accounting methodology (revenue recognition, collections policy)		x
	Detailed Aging Report: List of debtors and creditors.		x
	Loan documents for any existing debt / credit facilities, incl. terms and maturity date (to be reviewed by legal counsel)		x
	Summary of equity fundraising events and Capitalization Table		x
	LTM bank statements / transaction records - to be verified by bank		x
	If PAYG: PAYG growth projections (sales forecasts, geographic plans, contract size expectations over time) for 2+ years	x	
	Legal		
	Memorandum and Articles of Association / company constitution	x	
	Certificate of Incorporation	x	
	Business license(s) for the entity requesting financing		x
	Annual Audited returns filed with tax authority / company registry, inc. payment receipts		x
	Register of officers and shares/shareholders: Names and addresses of all Directors, Company Secretary, shareholders/partners/proprietors	x	
	Register of charges: Securities/ liens pledge to date.		x
	PATRIOT Act / Foreign Corrupt Practice Act (FCPA) compliance documentation Know Your Customer (KYC) form	x	
	Collateral		
	Proposed securities and their values	x	
	Title deed or certificate of occupancy over the property being proposed as a security (if appropriate)		x
	Valuation report of the proposed security (if appropriate)		x
	Results Based Finance *(if also applying to RBF)*		
	RBF Proposal (from SNV)	x	
	Proposal evaluation score (from SNV)	x	
	Receivables Financing Additional Checklist		
	Full list of all contract options (price to customer; payment terms and tenors; any discounts available at POS or via early repayment etc)		x
	Clear summary of PAYG sales process (including any credit assessment)		x
	Delinquency activities (when does an operator consider a customer "at risk"; what actions/escalations occur; when/if repossession occurs; when re-scheduling can happen etc.)		x
	Detail of all applicable technology used to facilitate PAYG - mobile payments/remote monitoring etc.		x
	Historical receivable book performance (track record of receivable book growth, PAR5, PAR30, etc. metrics, and summary of borrowers customer credit agreement parameters)		x

	Note: For SPV receivables financing, additional information requirements will apply based on the structure.		

3. Clean Development Mechanism (CDM)

3.1. Kenya Solar Lighting CDM Programme of Activity

To implement carbon finance payments for emissions reductions achieved within KOSAP, an associated Clean Development Mechanism (CDM) Programme of Activity (PoA) was setup; this programme will monitor a subset of emissions reduced under KOSAP and it is titled: 'Kenya Solar Lighting CDM Programme of Activity'. The Coordinating Managing Entity (CME) for this PoA is the Kenyan Rural Electrification Authority (REA). REA will be responsible for coordinating the implementation of the PoA and will be responsible for overall data collection, cleaning and archiving. The consultant that is taking REA through the registration process is Climate Care. The buyer of the emission reductions is the Carbon Initiative for Development (Ci-Dev), a World Bank trust fund that mobilizes private finance for clean energy access in low-income countries. The main purpose of this PoA is to replace kerosene lanterns that emit CO_2 with solar lamps that do not produce any CO_2 emissions.

3.2. The role of the SSPs Ceding ERs to REA

Participation in this CDM PoA is a pre-condition to SSP Debt Facility eligibility and therefore SSPs seeking the support from the SSP Debt Facility will have to agree to:

- Cede and grant to REA, in its capacity as the KOSAP CME, all rights and title to the emission reductions generated by the solar home systems; and
- Not to sell, transfer, assign, license, dispose of, grant or otherwise create any interest in the emission reductions generated by the solar home systems to any third party.

4. Market Information

4.1. List of Reference Materials

1. KOSAP Environmental and Social Management Framework (ESMF)
http://www.rea.co.ke/index.php?option=com_content&view=article&id=63&Itemid=238
2. KNES
3. CRA 2017 https://www.crakenya.org/information/downloads/
4. Energy Bill 2017 http://kenyalaw.org/kl/fileadmin/pdfdownloads/bills/2017/EnergyBill_2017.pdf
5. SE4ALL Action Agenda https://www.se4all-africa.org/fileadmin/uploads/se4all/Documents/Country_AAs/Kenya_SE4ALL_AA_January_2016.pdf
6. ESMAP MTF Energy Access Survey- Ethiopia

For more information please refer to the KOSAP Component 2 Website: www.Kosap-fm.org