



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
KENYA CLIMATE VENTURE FACILITY
APPROVED ON JUNE 8, 2015
TO
KENYA CLIMATE INNOVATION CENTRE

FINANCE, COMPETITIVENESS AND INNOVATION

AFRICA

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ABBREVIATIONS AND ACRONYMS

CEO	Chief Executive Officer
CIO	Chief Investment Officer
CITF	Climate Innovation Trust Fund
CTP	Climate Technology Program
DANIDA	Government of Denmark
DFID	UK Department for International Development
GoK	Government of Kenya
IC	KCVF Investment Committee
KCIC	Kenya Climate Innovation Center
KCVF	Kenya Climate Venture Facility
TA	Technical Assistance
VC	Venture Capital



Note to Task Teams: The following sections are system generated and can only be edited online in the Portal.

BASIC DATA

Product Information

Project ID P154586	Financing Instrument Investment Project Financing
Original EA Category	Current EA Category
Approval Date 08-Jun-2015	Current Closing Date 31-Dec-2019

Organizations

Borrower Kenya Climate Innovation Centre	Responsible Agency Kenya Climate Innovation Centre
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Financing (in USD Million)

SUMMARY

Total Project Cost	0
Total Financing	0
Financing Gap	0

DETAILS



Project Development Objective (PDO)

Original PDO

The development objective is to pilot an innovative investment facility that addresses the financing gap for promising start-up and early-stage climate technology companies in Kenya, and to develop investible, sustainable and scalable enterprises that contribute to Kenya’s growing climate innovation and clean tech sectors.

Summary Status of Financing

TF	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
TF-A0442	08-Jun-2015	09-Jun-2015	09-Jun-2015	31-Dec-2019	4.90	3.77	1.13

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

DESCRIPTION

1. The objective of the project is to pilot an investment facilitation facility – Kenya Climate Venture Facility (KCVF) that addresses the financing gap for promising start-up and early-stage climate technology companies in Kenya, and to develop investible, sustainable and scalable enterprises that contribute to Kenya’s growing climate innovation and clean tech sectors. The project involved a USD 4,900,000 small Recipient Executed Trust Fund (RETF) grant to the Kenya Climate Innovation Centre (KCIC) to establish, develop and build-out the Facility during the period of the project. Funding for the project comes from the UKAID (United Kingdom) and the DANIDA (Denmark), and is administered through the infoDev Climate Innovation Trust Fund within the FCI Global Practice.
2. The project was designed as an important new addition to Kenya’s growing venture capital and equity finance eco-system, as the **first Kenya based investment company building a new investment model that specifically targets innovative climate focused Kenyan start-ups and early-stage companies** considered too risky by venture capital funds and impact investors. KCV was set-up to pilot a hands-on investment model providing patient risk capital to its investee companies (in the USD 100,000 -500,000 range through equity and quasi equity instruments), coupled with high-touch management assistance that enables these companies to validate/refine their business model, accelerate sales, build capacity and get on the path to scale. KCV’s sectors



of focus include: clean/renewable energy, climate-smart agricultural solutions and agri-businesses, water management, and waste management.

3. In addition to the World Bank grant of USD 4.9 million, **KCIC has also allocated additional funding of USD 1.5 million** (through an independent grant from DANIDA to KCIC) for KCVF's investments and operations.
4. The project team is requesting an **extension to the Closing Date for the project, from December 31, 2019 to June 25, 2020 (within the current financial year)**. The project is expected to be satisfactorily completed within the extension period. The rationale for extension is explained below.
5. KCV is expected to continue as an investment company – operating as a subsidiary of KCIC – after the World Bank grant comes to an end, with additional funding provided by KCIC and other funders. This supports sustainability of the initiative.

A. PROJECT STATUS

6. KCVF has been operating as an investment subsidiary of KCIC since 2016, with a Board of Directors (for overall governance of KCVF) and an independent Investment Committee (IC). Between 2016 and 2018, KCVF reviewed and analyzed over 180 investment opportunities in early-stage climate technology companies in Kenya, making and supporting its investment companies. By end FY2018, KCVF had made investments in 3 early-stage climate technology companies (totaling USD 1.2 million) with approvals for an additional 2 investments.
7. Although making progress in some areas, the project has also had delays in implementation. In FY19, the Board of KCIC (KCV's parent organization), expressed concerns about KCV's implementation progress, management/governance arrangements, overall trajectory and future sustainability. Following internal deliberations, the Board commissioned a third-party review of KCVF's business and investment model, financial model, progress to date, management/arrangements. The third-party review was carried out by Lions Head Global Partners (LHGP), an investment advisory firm, and involved consultation and input from key stakeholders including KCVF Board, management/team and investment committee as well as the World Bank. The review identified areas where KCVF had made progress and implemented its investment activities, as well as gaps in implementation and management/governance arrangements.
8. Following the review, the KCIC deliberated on the way forward and took the following key decisions:
 - Refined the investment thesis to include greater focus on impact alongside the commercial filters
 - Greater emphasis to be placed on post-investment technical assistance to portfolio companies alongside the capital provided.
 - Reconstitute the KCV Board – expanded to 7 members with 3 from KCIC and 4 independent members.
 - Reconstitute the KCV Investment Committee.



- Strengthen the management team by bringing in a new Chief Executive Officer (CEO) to focus on overall KCV organizational and business development with an existing Chief Investment Officer (CIO) focused more on the investment side of the business.
 - Refine the forward fundraising strategy of KCV with a greater emphasis on donor funding for the next 3-5 years to allow a longer runway before KCV is ready for raising investor capital.
9. KCIC Board established a Transition Committee (TC) - chaired by the KCIC Chair and including the DANIDA representative on KCIC's Board, along with a couple of other Board members - to oversee the transition and restructuring of KCVF over a 6-month period. It was also decided that during this transition period that new investment activity would be suspended.
10. Since the planned restructuring of KCVF, the following actions have been undertaken:
- Governance changes – KCVF's Board was reconstituted with 3 Board members from KCIC and 3 independent members with backgrounds in investment/PE fund operations, entrepreneurship, venture capital and clean-tech investing. An independent Investment Committee (IC) was also reconstituted.
 - Management changes – KCVF has recruited a new CEO to lead and manage KCVF and to implement its plan for expansion and growth.
 - New funding raised – KCIC has also **raised additional commitments of USD 8 million** (beyond the World Bank USD 4.9 million grant and KCIC's own USD 1.5 million funding to KCVF) to support KCVF's expansion and sustainability, through funding from the European Union (EU) and DANIDA. This funding is expected to become effective at the end of 2020. Prior to this new funding being effective, KCVF is expected to rely on its existing funding streams for investment and operations
 - Investment management – KCVF continues to closely monitor and support its existing investments.
 - New Investment Activity - New investment activity has recommenced. KCVF currently is conducting due-diligence on 4 new companies for a potential of \$1.6 million in new investments. KCVF is expected to make 3 new investments by June 2020.
11. KCIC has been submitted interim financial reports on a timely basis which have been cleared by Financial Management (FM). There are no audit issues.

B. RATIONALE FOR RESTRUCTURING

12. The proposed restructuring involves a) extending the grant closing date by under 6 months from December 31, 2019 to June 25, 2020 (within the current financial year) to allow the project to fully utilize World Bank funding and to achieve the key results as per the results framework, and b) changing the funding allocation between the two categories of funding without changing the overall size of the grant (which will remain as USD 4.9 million).

Closing Date Extension



13. The rationale for the closing date extension is to enable KCVF to achieve the outcomes and results of the World Bank grant and to allow for KCVF’s sustainability and continuity. As mentioned earlier, KCIC’s plan to strengthen KCVF by improving management and governance and refining the investment/business model (based on learnings from the first couple of years of implementation) has led to delays in implementation. However, KCIC’s management and Board felt that such changes were necessary to enable KCVF’s to become a sustainable entity over the medium term.
14. KCIC’s successful fundraising for KCVF (with additional funding commitments of USD 8 million)) has created a pathway for KCVF to continue strengthening its operations and investment activities while having the necessary funding needed to ensure its sustainability once the World Bank grant comes to an end. However, as these new funding commitments are not expected to commence until end of CY2020, KCIC has requested the Bank to extended grant closing date to enable a smooth transition for KCVF’s forward continuity.
15. During the short extension period, KCVF aims to make additional investments and fully disburse remaining funds, deepen its institutional strengthening, and preparing for its sustainability beyond the closing of the World Bank grant.

Reallocation funding between Disbursement Categories

16. It is also proposed that the funding allocation between categories of funding be changed as follows:

	Existing Allocation	Proposed New Allocation
Category 1: Operating costs, Goods, Consulting and Non-Consulting Services	\$1,700,000	\$2,200,000
Category 2: Sub financings (investments)	\$3,200,000	\$2,700,000

Because of the project’s extension, additional funding is needed to fund KCVF’s operating costs as well as pre and post investment technical assistance to its investee companies (Category 1). KCIC also does not expect to utilize all the funding allocation for investing (Category 2) by the end of the revised closing date. The shortfall of USD \$500,000 from the investment pool from World Bank funding will be covered by KCIC from its own funding allocation of USD1.5 million to KCVF.

II. DESCRIPTION OF PROPOSED CHANGES

1. The proposed changes are: 1) extension of the project closing date from December 31, 2019 to June 25, 2020 and corresponding change to the implementation schedule; 2) change in disbursement estimates, and 3) reallocation of disbursement between funding categories, 4) revised targets in the results framework.



Changes in disbursement estimates

Period	Disbursement by period	Cumulative disbursements	Percentage
Disbursed	\$ 3.8 million	\$ 3.8 million	78%
Dec 2019	\$ 0.3 million	\$ 4.1 million	83%
Jan – Jun 2020	\$ 0.8 million	\$ 4.9 million	100%

Reallocation of disbursement between funding categories

	Existing Allocation	Proposed New Allocation
Category 1: Operating costs, Goods, Consulting and Non-Consulting Services	\$1,700,000	\$2,200,000
Category 2: Sub financings (investments)	\$3,200,000	\$2,700,000

Revised targets in the Results Framework

2. Two of the targets in the results framework – number of investments made and cumulative investment amounts – have been revised downward due to the delays in implementation.
 - a. Total number of investments has been reduced from 10 to 6.
 - b. Cumulative investment amounts have been reduced from USD 3.2 million to USD 2.7 million

3. It is expected that by December 2020 (6 months after the World Bank project ends), KCVF will have made 8 total investments and attain the original target for cumulative investments of USD \$3.2. million. These investments will be made from KCIC’s own current allocation of USD 1.5 million. Additionally, because KCVF has raised funding for its continuity after the World Bank project period ends, it is expected that KCVF will considerably exceed the original targets over the next 3 years as per KCVF’s expansion/continuity plans.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Loan Closing Date(s)	✓	
Reallocation between Disbursement Categories	✓	
Disbursement Estimates	✓	
Implementation Schedule	✓	



Implementing Agency		✓
Project's Development Objectives		✓
Components and Cost		✓
Cancellations Proposed		✓
Additional Financing Proposed		✓
Disbursements Arrangements		✓
Change in Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Other Change(s)		✓

IV. DETAILED CHANGE(S)

RESULTS FRAMEWORK

Project Development Objective Indicators

Number of enterprises receiving KCVF investment (cumulative)				
Unit of Measure: Number				
Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	3.00	6.00	Revised
Date	01-Jun-2015	18-Dec-2017	25-Jun-2020	
Amount invested by KCVF (cumulative)				
Unit of Measure: Amount(USD)				
Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	1200000.00	2700000.00	Revised



Date	01-Jun-2015	18-Dec-2017	25-Jun-2020	
Total additional funding leveraged through Project (cumulative)				
Unit of Measure: Amount(USD)				
Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	3500000.00	2500000.00	No Change
Date	01-Jun-2015	18-Dec-2017	31-Dec-2019	
Number of KCVF portfolio companies raising external funding				
Unit of Measure: Number				
Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	2.00	4.00	Revised
Date	01-Jun-2015	18-Dec-2017	25-Jun-2020	

Intermediate Indicators

Number of deals reviewed				
Unit of Measure: Number				
Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	90.00	70.00	No Change
Date	01-Jun-2015	18-Dec-2017	30-Jun-2018	

LOAN CLOSING DATE(S)

TF	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
TF-A0442	Effective	30-Jun-2018	31-Dec-2019	25-Jun-2020	25-Oct-2020

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)
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			Current	Proposed
TF-A0442-001 Currency: USD				
iLap Category Sequence No: 1	Current Expenditure Category: Gds,Wks,Ncs,Cs,Trn, Wkshp and Opc			
1,700,000.00	1,665,264.00	2,200,000.00	100.00	100.00
iLap Category Sequence No: 2	Current Expenditure Category: Sub-Financing Ben Enterprises Prt B			
3,200,000.00	1,000,000.00	2,700,000.00	100.00	100.00
Total	4,900,000.00	2,665,264.00	4,900,000.00	

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2015	500,000.00	500,000.00
2016	200,000.00	200,000.00
2017	700,000.00	700,000.00
2018	1,400,000.00	1,400,000.00
2019	1,900,000.00	500,000.00
2020	300,000.00	1,600,000.00
2021	0.00	0.00

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