

WORKSHOP

EXPANDING DOMESTIC FINANCING FOR LOCAL SOLAR BUSINESSES

October 7, 2020

TEMARIN

TEMARIN Project Team



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The **TEMARIN** Project

UNEP DTU Partnership is a UN Environment Programme and Technical University Denmark Collaborating Centre and a leading international research and advisory institution on energy, climate and sustainable development.

TEMARIN: Technology, Markets and Investment for Low Carbon and Climate Resilient Development



OUR FOCUS AREAS



Climate Planning and Policy



Climate Transparency and Accountability



Business Models and Markets

Strengthening markets for climate technologies in Kenya and Uganda

Today's Agenda

Time	Agenda Item	Speakers
11:00-11:15 AM	Brief Round of Introductions	All attendees
11:15-11:20 AM	Purpose and Context Setting	UNEP-DTU Partnership
11:20-11:45 AM	Bank Portfolio and Experiences	Kenya Commercial Bank Co-operative Bank Equity Bank Absa Bank
11:45-12:30 PM	Discussion Session	Open discussion by all participants and concluding points

Attending banks

Please introduce yourself...



Interviewed solar PV companies

Please introduce yourself...

Automax

Epicenter Africa

GoSolar

Harmonic Systems

Kensen

Knights Energy

Multilink

Mwangaza Light

Ofgen

PowerPoint Systems

Questworks

Skynotch

Solar Poa

Solafrique



Distinguished guests

Please introduce yourself...

Olufunso Somorin and **Muthoni Nduhiu**, African Development Bank

Shelmith Theuri, Power Africa Off-grid Project, supported by USAID

Mutisya Ndunda, SUNREF-French Development Agency & KAM

Maimuna Kabatesi, Hivos, Dutch Development Organization



A few **practical things** before we begin...

- The discussion points made during this workshop will be included in the final report in an anonymized form.
- Notes taken from this workshop will only be shared internally within the TEMARIN Project Team.

And lastly, please remember to:

- Mute yourself 
- You can raise your hand in Zoom to ask questions 
- You can always write your comments and inputs in the chat box 

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Purpose & Context setting

Lakshmi Bhamidipati

Research Fellow (Postdoc)
UNEP-DTU Partnership



WORLD
RESOURCES
INSTITUTE

WORKING PAPER

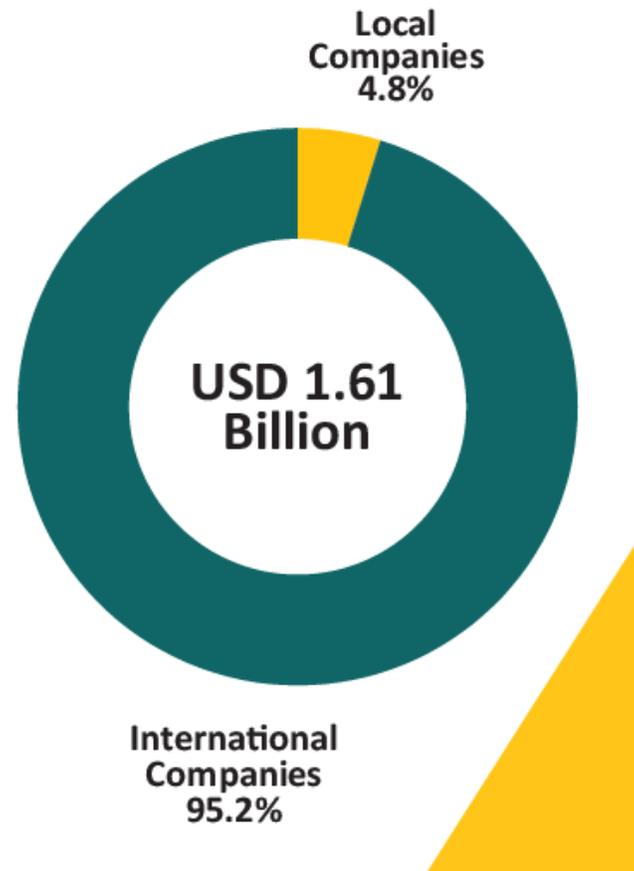
THE IMPACT INVESTORS' BLIND SPOT: LOCAL CLEAN ENERGY ENTREPRENEURS IN KENYA

INSIDE DEVELOPMENT | ENTREPRENEURSHIP

Local entrepreneurs on funding access: 'The system is broken'

By *Adva Saldinger* // 19 April 2019

Funding Raised By International vs. Local Companies in SSA



Source: G4a (for off-grid solar)

Silicon Valley has deep pockets for African startups - if you're not African

American venture capital and private equity is dominating Africa, but it's mostly funding other white foreign founders as black entrepreneurs struggle to raise financing

05.09.2018. , Aneri Pradhan

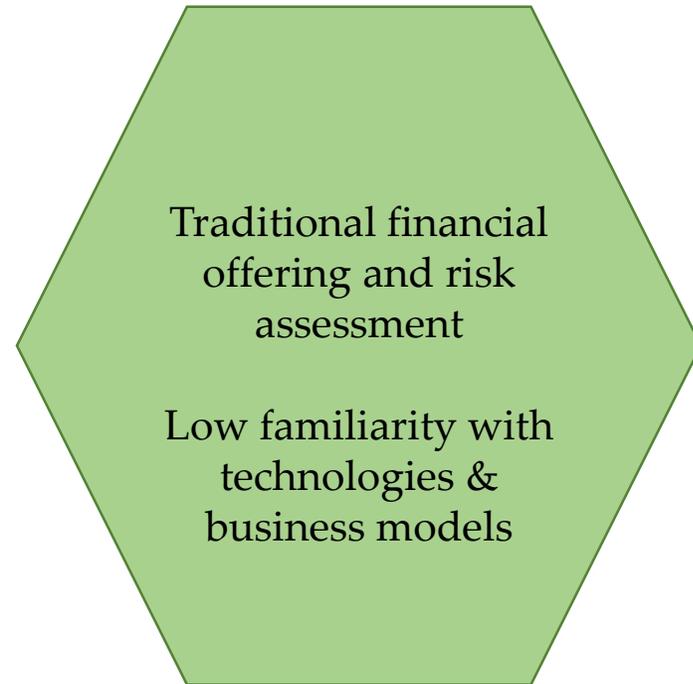
The elephant in the room - an expose on racial equity and energy access

Commercial banks as an important lever in building domestic RE industry

- Commercial banks lend in local currency, at market rate or at a concessional rate
- Commercial banks have the scope to better understand the needs, the risks and develop trust and a common language for the market
- Commercial banks can tailor their offering to meet the growing market demands

.... can play a critical role in boosting local entrepreneurs and indirectly the GDP

Limited supply of Investor Ready Projects / Limited Investment Readiness



Local companies have and are still evolving...

- Companies with experience ranging from **5 to 20 years**
- Companies with **annual turnover** between 100,000 USD to 5 million USD
- Companies have a **strong awareness** of local needs language, culture, behaviour

Range of **different markets and specializations**

Distribution/Sale of Off-grid solar products and SHS

Small-scale PV installations in schools and health centres

Solar mini-grids for town centres, businesses, and villages

Solar-based water pumps for irrigation

Solar C&I Installations – grid-tied systems

Utility-scale PV projects – project preparation and EPC

Commercial banks are evolving...

Commercial Banks offering traditional loans at market rate (limited knowhow)

Commercial Banks offering concessionary loans via donors + capacities enhanced at corporate banking level

Commercial banks starting to offer more tailored products...



- More concessional finance options
- Leasing finance
- Green bonds

Needs and expectations

Needs of the companies

- Loans for managing cash flows (short-term, long-term) - not project related
- Contract-based financing (alternate to collateral) (where customer contracts can serve as security)
- Inventory financing (where products/stock purchased is mortgaged)

Needs of the commercial banks

- Land based security (collateral)
- Guarantees by parent company
- Bankability - Cost, IRR, payback period, debt service ratio etc.
- Company structure - shareholders, tax compliance etc.
- Technical strength - work experience, track record, capabilities, partnerships

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Bank Portfolio & Experiences

Kenya Commercial Bank

Equity Bank

Co-operative Bank

Absa Bank

THE CO-OPERATIVE BANK OF KENYA

UNEP-DTU Finance Session

7th October, 2020

Bank's Portfolio on Solar SME Lending

Specific targeted market segments within Solar	<ul style="list-style-type: none">• Independent Power Producers(IPP's)• Commercial &Industrial Sector• Education Institutions• Hospitality Sector
Businesses or Projects already supported (number of projects and/or funding volume)	<ul style="list-style-type: none">• The Bank has disbursed Up to USD 37M toward Renewable Energy over the last 5Years.
Supported any local solar MSMEs - If yes, how many?	<ul style="list-style-type: none">• The Bank has financed small Solar Pv's of less than 100Kwh.
Future plans or anything else you want to add?	<ul style="list-style-type: none">• Commercial and Industrial Sector Customer.• Domestic use-Roof Top Solar Pv'S and Solar water Heating solution• Agriculture-Solar water Pumps.

Case 1: - Positive Experience or Example of lending a local solar SME

What was the financing need of Company A? and for which PV market segment?

- The Company required financing for 600Kwh Solar PV plant.
- The power generated was for their own use and excess was to supply to the national Grid.

Explain the example further in terms of the loan tenor, cost of finance, IRR, payback period, collateral

- Loan Tenor: 120 Months
- Cost of finance-Subsidised funds from AFD
- IRR: 12%
- Pay Back period: 7 Years
- Collateral: Legal Charge and Debenture over the Solar Equipment's

What were the technical strengths of this project or SME? And how did you assess the company or project for approval?

- The technical aspect of the project was approved by SUNREF/AFD

Case 2 - Negative Experience or Example lending a local solar SME (anonymous)

What was the financing need of Company B? and for which PV market segment?

- 400Kwh Roof Top Solar PV
- Total Project Cost: USD 429,000.00
- Commercial Sector-Own consumption

What expectations/requirements did the Company B not fulfil to be eligible for funding?

- Collateral/Security :The customer did not have tangible security to cover the exposure.
- Equity Contribution: The company was not willing to inject the upfront 30% Equity.

Challenges lending to SME's

Challenges lending to SME's	<ul style="list-style-type: none">• Capacity to engage qualified Technical Providers who are able to access the Energy needs, sourcing of materials from credible suppliers with warranties and supervision that installation is done correctly• Owners' Equity: The project sponsors are unable to mobilize the 20-40% equity as the Bank only finances 60-80% of the project cost.• Scope of Auxiliary Costs: In some projects other costs arise that have to be undertaken to make the project a success. A re-curing case is of roof installation of solar PV panels; the bank &/or client has to incur an extra cost of refurbishing/ rebuilding the roof to enable it hold the weight of the PV panels which is not usually accounted for at the project implementation stage

Discussion Session

Situation 1

Issue of Collateral

What are the alternatives?

Off-taker Agreement,
Inventory Financing,
Guarantee instruments
(G4A, MoE)

Situation 2

Issue of Small-sized projects

Can projects be aggregated for debt finance?

What should be the model?

Joint Venture,
SPV

Situation 3

Issue of Weak Proposals

Publicly sharing good examples on an accessible portal

Sharing examples of completed projects with financial close

Other avenues?

Situation 4

Any other issues?

High Interest rates?

Better data and information?

Rigidity in the banking system

?

1. Issue of Collateral

Situation I

Issue of Collateral

What are
the alternatives?

Off-taker
Agreement / Client
Contract, Inventory
Financing,
Guarantee
instruments
(G4A, MoE)

2. Issue of Small-sized projects

Situation 2

Issue of Small-sized projects

Can projects be aggregated for debt finance?

What should be the model?

Joint Venture,
SPV

3. Issue of Weak Proposals

Situation 3

Issue of Weak Proposals

Publicly sharing good examples on an accessible portal

Sharing completed projects with financial close

4. Other issues

Situation 4

Any other issues?

Thank you attending!

More information about the TEMARIN project [here](#).



UNEP DTU PARTNERSHIP UN@ environment programme

**Clean captive power:
Understanding the uptake and
growth of commercial and industrial
(C&I) solar PV in Kenya**

TEMARIN WORKSHOP REPORT

WORKSHOP ON STRENGTHENING SUPPORT FOR DOMESTIC FIRMS IN THE SOLAR PV INDUSTRY IN KENYA

Workshop details

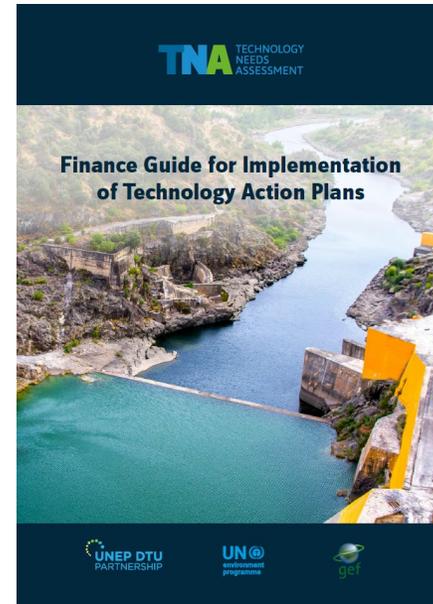
Project Title: Technology, Markets and Investment for Low Carbon and Climate Resilient Development (TEMARIN)
Workshop topic: Strengthening support for domestic firms in the solar PV industry in Kenya
Date: 24 June 2020, 10-12:30 EAT
Participants: Representatives from Ministry of Industry and Ministry of Energy, Representatives from EPRA and KEREA, Representatives from 11 Kenyan solar PV firms
Organisers: UNEP DTU Partnership and Strathmore Energy Research Centre
Venue: Zoom meeting online (due to Covid-19)

Background

Kenya has witnessed a considerable surge in solar PV dissemination and uptake, positioning the country as a frontrunner and a regional leader in this market. However, domestic solar PV businesses face several challenges limiting their ability to grow and upscale their business such as lack of access to funding, human resource constraints, inconsistent policies and regulations, and an inadequate business ecosystem.

In this context, the UNEP DTU Partnership, in collaboration with Strathmore Energy Research Centre (SRC), conducted a detailed study to highlight competitiveness among Kenyan MSMEs and bring to attention the challenges faced by Kenyan solar companies. In February 2020, the project team conducted in-depth interviews with 14 Kenyan solar MSMEs, which are operating across off-grid, mini-grid, productive use, Commercial & Industrial, and utility-scale market segments as well as a key stakeholders including the Ministry of Industry, Trade and Enterprise Development (MoI), Ministry of Energy (MoE), The Energy and Petroleum Regulatory Authority (EPRA), the World Bank Group (WBG), Kenya Private Sector Alliance (KEPSA), Kenya Renewable Energy Association (KEREAL), Power Africa, Private Financing Authority Network (PFAN), and Equity Bank. The study took an individual company trajectory approach identifying how company owners started and grew their businesses, how they became competitive over time, strategies for upscaling as well as the challenges faced along the way and how they were overcome. The study identified a number of challenges and bottlenecks, which are hindering domestic firms from upscaling and grow their businesses.

The 14 Kenyan solar MSMEs were invited to take part in the current workshop together with the representatives from Ministry of Industry, Trade and Enterprise Development (MoI), Ministry of Energy (MoE), EPRA and KEREAL to discuss study findings and challenges identified as well as to formulate potential solutions to remove bottlenecks and lower specific barriers for Kenyan solar PV SMEs.



TNA TECHNOLOGY NEEDS ASSESSMENT

Finance Guide for Implementation of Technology Action Plans

UNEP DTU PARTNERSHIP UN@ environment programme gef

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