INTEGRATED SAFEGUARDS DATA SHEET
IDENTIFICATION / CONCEPT STAGE

Report No.: ISDSC12009

Date ISDS Prepared/Updated: 09-Apr-2015

I. BASIC INFORMATION

A. Basic Project Data

Country:	Kenya	**Project ID:**	P154586
Project Name:	Kenya Climate Venture Facility		
Team Leader(s):	Aun Ali Rahman		
Estimated Date of Approval:	30-Apr-2015		
Managing Unit:	GTCID	**Lending Instrument:**	Lending Instrument
Sector(s):	SME Finance (100%)		
Theme(s):	Micro, Small and Medium Enterprise support (100%)		
Financing (in USD Million)			
Total Project Cost:	4.9	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			**Amount**
InfoDev			4.9
Environment Category:	B - Partial Assessment		

B. Project Development Objective(s)

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 a deal flow of investible, sustainable and scalable enterprises that contribute to Kenya's growing climate innovation and clean tech sectors.

C. Project Description

1. Description

The project is to establish an innovative financing facility, the Kenya Climate Venture Facility (KCVF) to provide seed and early stage financing to promising start-up and early-stage climate technology firms in Kenya.

(a) KCIC Background and Context
The KCVF will be set up by and capitalize on the activities of the existing Kenya Climate Innovation Center (KCIC, http://kenyacic.org/). The KCIC was launched in September 2012 in Nairobi and currently supports more than 80 start-up and early-stage Kenyan firms developing innovative

technologies and businesses in climate change sectors such as renewable energy, climate-smart agriculture and water and sanitation. The KCIC provides its client 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. Companies being supported by the KCIC benefit from assistance to get from concept to initial market testing in the course of a successful incubation process, which typically takes at least 12 months or more.

The KCIC is implemented by a consortium of four organizations that bring complementary strengths to the project:

- Global Village Energy Partnership (GVEP) – GVEP is a non-profit firm that supports Kenyan SMEs providing renewable energy access to under-served communities. GVEP supports KCIC clients with strategy/business plan development, access to finance and related activities.
- PriceWaterhouse Coopers (PWC) – PWC provides back-office financial management for the project.
- Kenya Industrial Research and Development Institute (KIRDI) – KIRDI is a government research and development body that supports KCIC clients with technology prototyping and development as well as getting key IP protection for their technologies.
- Strathmore University – Strathmore provides office facilities for KCIC and its clients in its business school as well as technology development support.

The KCIC is strongly supported by the Government of Kenya and is featured prominently in the Kenya National Climate Change Action Plan (NCCAP):
"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 entrepreneurship, 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."

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(b) KCVF Overview

Now that the KCIC has gained critical traction with the Kenyan clean tech startup community, it is the right time to launch the KCVF with a mandate to support the financing of the most viable of these firms. KCVF will focus on those innovative companies that are at a stage of development when they require financing for further market testing and business model validation, leading to a full market roll-out. The KCVF will pioneer an innovative financing model – among the first of its kind in the East Africa region –by investing patient capital (in the form of equity, debt and/or related instruments) along with high engagement management and technical assistance (Figure 1). It will target companies that will have the potential for a positive financial return on investment while also creating social, economic and/or environmental impact. These will include companies developing promising - but unproven - business models in renewable energy (on-grid, off-grid, and home-based products such as solar lighting or cook-stoves), water/sanitation and climate-related agriculture. To maximize deal flow however, portfolio companies for the KCVF will include but not be limited to KCIC clients.

The KCVF will be set up by KCIC, which will capitalize it with an anchor equity contribution of approximately $4.5M (made possible through a grant of $4.9M to KCIC from infoDev).
Key features of the KCVF model are as follows:

- Geographic Focus - The principal geographic focus of the Facility is Kenya, but KCVF will also be open to investment possibilities in the greater East Africa region in due course.

• Investment Size - Individual investments could range from $100K -$1M; however most investments will be under $500K. To mitigate risk, investments will be milestone based, with smaller amounts of initial capital and subsequent capital injections tied to performance milestones and growth outlook.

• Legal Structure – KCVF is envisioned to be an investment company, as this structure is more suited to this type of higher risk investment category than traditional VC/PE models. The actual details of the legal structure will be further developed during the project development phase.

• 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 and their need for more tailored and flexible sources of capital. Such investment principles are already being effectively applied in impact investing.

• Management/Technical Assistance – A key features in the KCVF model – alongside capital provision - is the strong focus on management/technical assistance to portfolio companies. Start-up and early stage companies need a lot of hand-holding and support to realize their potential. Some of the areas for management /technical assistance will include:

o Talent development – Mentoring/coaching for entrepreneurs, and building core management team;

o Strategy and business model development

o Financial and operational systems development;

o Market intelligence and marketing support;

o Government linkages and assistance on getting regulatory approvals;

o Access to finance linkages (with banks, donors, other investors) for companies, value-chain players, and end-consumer financing;

o New business development and partnerships.

infoDev has applied for an additional $0.8 M in grant funding for Technical Assistance for KCVF portfolio companies from the SREP Private Sector Set-Aside of the Climate Investment Funds administered by the World Bank. The proposal has been endorsed by an Expert Group reviewing all proposals and is pending formal approval from the SREP Approval Committee.

Because of the pioneering nature of KCVF as one of the first seed-stage investment and TA vehicles in Africa focused on climate technologies, details of its business and investment model, strategy and structure will need to be kept open at this point to encourage the KCVF to adapt itself as it is informed by the experiences from its early investments.

(c) Operational Relationship between KCIC and KCVF

A central element of KCVF –and a principal innovation in its investment model which sets it apart from other early-stage funds - is its close operational relationship with the KCIC. The KCIC will support KCVF in the following ways:

• Pipeline sourcing and pre-screening – Start-up and early-stage companies being developed by KCIC 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 the Facility's funding criteria. At present, KCIC management estimates that about 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 clean-tech companies that were too mature for KCIC's incubation support, but would 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 has the infrastructure to build capacity and provide support to start-up and early-stage climate-tech companies. For companies that KCVF invests in, KCIC will provide management/technical assistance alongside the KCVF team.

(d) Management of KCVF

It is envisioned that the management of the Facility will be done by an investment firm with strong experience in SME investing (including managing early-stage investments) and with a local Kenyan presence. The Facility manager will:

i) source deals (in addition to the pipeline generated from KCIC);
ii) conduct due-diligence and negotiate/structure/close individual investments;
iii) conduct post-investment monitoring and governance of portfolio companies;
iv) coordinate management assistance to portfolio companies from the KCVF investment team and KCIC;
v) administer the Facility governance and reporting requirements;
vi) bring additional investors into the project.

An alternative management option is to hire an in-house investment team within KCIC/KCVF to manage the Facility. The investment team would be led by a seasoned VC/PE investment professional (who would serve as the Chief Investment Officer) and include a small team of finance professionals (which will grows as needed as the portfolio expands). In this scenario, the KCVF investment team will remain independent of KCIC incubation team, reporting instead to an investment committee (on investment matters) and to the KCVF Board (on general governance matters).

Both management options appear feasible at this stage and this will be finalized during project development prior to disbursement of the grant to KCIC. The Facility manager’s contract terms (along with the compensation/incentive structure) will be developed during project development as well.

(e) Leveraging Additional Capital

KCVF will initiate investing with the $4.5 M anchor equity contribution from KCIC, laying its structural foundations and refining its model based on its initial investment experiences. As these foundations are built, the project will aim to leverage and “crowd in” other public and/or private funders to increase the overall funding base for target companies. Such leverage can come at two levels:

i) Investors can invest directly into KCVF, adding to the pool of funds contributed by KCIC. The goal is to increase the size of KCVF to at least $15 M in total capitalization over time.
ii) Investors can co-invest with KCVF directly into the target portfolio companies. The pre and post-investment activities of KCVF/KCIC will make it easier for potential co-investors to reduce their diligence/transaction and post-investment management costs.

One source of financing is other institutional donors who also have a strategic interest in enabling early-stage climate-tech companies. Another source is impact investors, who seek to address social and/or environmental problems while also making reasonable financial returns. Impact investors are interested in areas such as SME financing, clean/renewable energy and sustainable agriculture. They also recognize the importance of early-stage businesses in developing such innovations. However, in practice all these possible partners struggle to make investments because of the higher risks of failure associated with them. These other investors may wish to avail themselves of risk mitigation support from the KCVF.

To prepare for and enable risk mitigation support for such investors, infoDev submitted a request for

$6M guarantee funding to the SREP Private Sector Set-Aside of the Climate Investment Funds, as mentioned above. The guarantee will be in the form of a “first loss” cover on the principal amount invested and will be available both type of target investors for the project. Those co-investing with KCVF directly into portfolio companies will have a portion of their principal protected in individual deals. Likewise, those investing into KCVF directly will have a portion of their investment into the Facility also protected. Initial estimates are that the “first-loss” cover could be between 25-35% of the principal amount invested, potentially unlocking about $20 M in additional financing for the two investment categories. The exact extent of the first-loss protection and how the guarantee structure works will be determined during the project development following conversations with potential investors.

D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The KCVF will be primarily implemented in Kenya. In view of the fact that the investment will be applied and disbursed on a demand-driven basis and no specific sub-projects have been identified at this stage during project design, an environmental and social framework approach is recommended. The recommended safeguard instrument is an Environmental and Social Management Framework. The project will not finance activities that: involve land acquisition leading to involuntary resettlement and/or restrictions of access to resources and livelihoods; or involve or affect natural habitats, forests and physical cultural resources. The project also does not involve pest management or dams. . However, as and Wwhen sub-projects are identified during the implementation phase of the project, appropriate supplemental safeguard instruments such as site-specific environmental and social impact assessments/environmental and social management plans (ESIAs/ESMPs), resettlement action plans (RAPs), Process Frameworks (PFs), etc may be prepared to preclude and/or remediate any safeguards risks and impacts likely to emerge from execution of those investment projects.

The project is expected to be implemented in cities and towns and so does not meet the criteria for triggering OP 4.10 (Indigenous Peoples). Should it become apparent that some of the sub-projects will be implemented in areas where Indigenous Peoples are present, a Vulnerable and Marginalized Groups Framework will be consulted upon and disclosed before sub-project activities commence.

E. Borrower’s Institutional Capacity for Safeguard Policies

It is envisioned that the management of the Facility will be done by an investment firm with strong experience in SME investing or through an in-house investment team within KCIC/KCVF itself. Based on groundwork on grant facility management done by the infoDev team in Kenya, both management options appear feasible for the management of the proposed Facility. It is however not clear if this groundwork study included an assessment of the entities’ capability to effectively and efficiently carry out compliance monitoring for environmental and social safeguards. There is no documentary proof that under the initial KCIC support operation implemented by KCIC itself safeguard management was considered during either project design or implementation. In view of the foregoing, it is advised that during the project design and development phase of the successor operation, the project will commission an in-depth assessment of the implementing (management) agency’s capacity to also manage environmental and social safeguards as well as other non-social safeguard related issues.

It is hereby proposed that whichever agency may be appointed to manage the Facility will have to install and build safeguard management/compliance monitoring capacity within its ranks to carry out environmental and social safeguards due diligence, including screening sub-projects and conducting environmental and social safeguards studies for investments that may be proposed by proponents seeking support from the Facility. Furthermore, the selected Facility management entity may resolve any existing or unforeseen safeguard management capacity constraints by: (i) designating/assigning one or two of its staff (full time) to be responsible for the management of environmental and social safeguards of the project. Whoever is assigned to deal with safeguard issues would, however, need to be trained properly in safeguards and also be exposed to all the Bank's safeguards policies as well as the national environmental and social safeguard policies, legislation and guidelines; or (ii) hiring a safeguards expert or firm with expertise in both environmental and social safeguards from the market who could be kept on a retainer basis to provide advice and monitor safeguard compliance. These experts, whether they are the management entity’s own staff members or are hired from the market and entrusted with the responsibility of screening and vetting investment proposals that will be submitted to the Facility management entity will be using the checklist in the ESMF to initially screen and vet proposals. They will also be responsible for providing technical support to proponents during the preparation of appropriate supplemental safeguards instruments and implementation of mitigation/management plans and monitoring compliance of safeguards. The nature, type and scope of investments under the Facility will determine whether the services of World Bank’s Environmental and Social Specialists will be needed at all times during implementation of this project.

F. Environmental and Social Safeguards Specialists on the Team

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/ BP 4.01	Yes	An ESMF has been prepared to guide the screening of sub-projects, address potential risks and impacts and propose mitigation measures.
Natural Habitats OP/BP 4.04	No	The project does not involve or affect natural habitats.
Forests OP/BP 4.36	No	The project does not involve or affect forests.
Pest Management OP 4.09	No	The project does not involve pest management measures.
Physical Cultural Resources OP/ BP 4.11	No	The project will not affect physical cultural resources.
Indigenous Peoples OP/BP 4.10	No	The project is being implemented in cities and towns and thus does not meet the criteria of the Indigenous Peoples policy.
Involuntary Resettlement OP/BP 4.12	No	The project does not involve land acquisition leading to involuntary resettlement or restrictions of access to resources and livelihoods.
Safety of Dams OP/BP 4.37	No	The project does not involve dams.
Projects on International Waterways OP/BP 7.50	No	N/A
Projects in Disputed Areas OP/BP 7.60	No	N/A

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III. SAFEGUARD PREPARATION PLAN

A. Appraisal stage ISDS required?: Yes

i. Explanation

ii. Tentative target date for preparing the Appraisal Stage ISDS

12-Apr-2015

B. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage ISDS.

IV. APPROVALS

Team Leader(s):	Name: Aun Ali Rahman	
Approved By:		
Safeguards Advisor:	Name: Alexandra C. Bezeredi (SA)	Date: 13-Apr-2015
Practice Manager/ Manager:	Name: Ganesh Rasagam (PMGR)	Date: 13-Apr-2015

[1] Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.