Early Warning System

FMO-45122

KTDA POWER COMPANY LTD.

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Quick Facts

Countries	Kenya
Financial Institutions	Netherlands Development Finance Company (FMO)
Bank Risk Rating	B
Voting Date	2015-12-18
Borrower	Kenya Tea Development Agency (KTDA)
Sectors	Agriculture and Forestry, Energy
Investment Amount (USD)	$ 15.00 million

Project Description

WHO IS OUR CLIENT

Kenya Tea Development Agency (KTDA) is the largest tea business in East Africa, representing 60 percent of all Kenyan tea sales. KTDA was privatized in 2000 and is indirectly owned by 570,000 tea farmers, through 66 tea factories. KTDA is a management and service provider offering services to tea factories and farmers. Services included management services for factories, trading, warehousing, branding, pre-financing and power projects. The KTDA entities deduct their cost (e.g. of processing) and a fee from the final tea sales price, while the rest of the tea sales price is paid out to farmers. KTDA is consistently looking at the entire tea value-chain to see where it can cut cost and provide ancillary services. KTDA is now setting up small hydro projects, through its subsidiary KTDA Power (or the Company), to reduce energy cost, which is one of the major costs in the processing of tea. Several tea factories have joined hands to save equity to invest in a hydro project.

FUNDING OBJECTIVE

KTDA Power will design, construct, operate and maintain seven run-of-the river small-hydropower plants (SHPs) with a total installed capacity of 16MW at various locations in Kenya. The SHPs will provide captive power generation for several KTDA tea factories, and will sell any excess to the majority state-owned utility company, Kenya Power and Lighting Company (KPLC). Each SHP will be owned by newly created asset holding companies, Regional Power Companies (RPCs). KTDA Power will have a 12.5 percent share in each RPC while the remaining shares are held by several tea factories in the region. KTDA Power will on-lend the money to the different RPCa€™s and in turn to different SHPs. There are four RPCa€™s owning seven hydro projects. By retaining factory profit, the tea factories have saved equity over several years. Total Project cost is USD 85.6 million, financed for 65 percent by debt and 35 percent by equity. Total debt package of USD 55 million is arranged by IFC. IFC will take USD 25 million (50 percent GAFSP) and FMO and Proparco both USD 15 million. FMO will participate in a B-loan financed by IDF. KTDA Holdings and its largest subsidiaries will provide a first demand corporate guarantee and unlimited deficiency support throughout the full lifetime of the loan.

WHY WE FUND THIS PROJECT

The investment rationale is that captive power is imperative for the tea business: energy makes up 30 percent of total tea processing cost. To remain cost competitive, the tea factories have to reduce their energy costs. Tea-growing-areas have excellent potential for small-scale hydro's and there is good credit risk through corporate guarantee and full deficiency support. KTDA is a large and financially strong group with an excellent track-record. Additionally, the investment aims to have a high development impact: Generating renewable energy is marked within FMO as "Green". As the Group has a cooperative structure and the shareholders and ultimate beneficiaries are smallholder farmers, the deal can be marked as "Inclusive" as well. The project is expected to create 2,100 jobs during construction and around 60 after commissioning.

Investment Description

- Netherlands Development Finance Company (FMO)

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ACCOUNTABILITY MECHANISM OF FMO

Communities who believe they will be negatively affected by a project funded by the Dutch Development Bank (FMO) may be able to file a complaint with the Independent Complaints Mechanism, which is the joint independent accountability mechanism of the Dutch Development Bank (FMO) and the German Investment Corporation (KfW) . A complaint can be filed in writing, by email, post, or online. The complaint can be filed in English or any other language of the complainant. The Independent Complaints Mechanism is comprised of a three-member Independent Expert Panel and it can provide either problem-solving, compliance review or both, in either order. Additional information about this accountability mechanism, including a guide and template for filing a complaint, can be found at: https://www.fmo.nl/independent-complaints-mechanism.

Bank Documents

- Project Information