

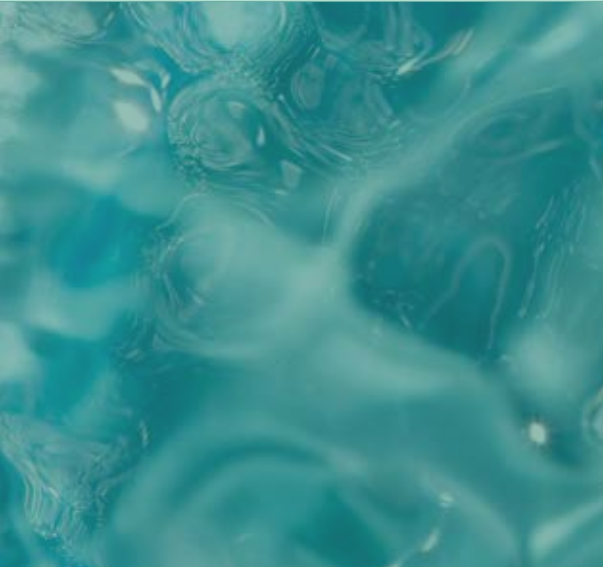
K I F F W A

KENYA INNOVATIVE
FINANCE FACILITY
FOR WATER

Highlights



NETHERLANDS
WATER PARTNERSHIP



KIFFWA - Why

Why is innovative financing for water in Kenya a good idea?

The Kenya Innovative Finance Facility for Water (KIFFWA) mobilises new forms of finance for the Kenyan water sector. This is needed for two reasons. Firstly, the water challenges in Kenya are vast ❶ and secondly there is a tremendous financing gap to address those challenges. ❷

1 The Water Situation in Kenya

Kenya faces water security problems resulting in an array of social, environmental and economic issues. Water use and water demand for different purposes (drinking, agricultural, industrial etc.) is

expected to rise significantly in the coming years. Addressing these problems requires huge investments.

Water resources developed	15%
Access to safe water	Urban – 70% Rural – 50% - mostly un-piped water
Annual water replenishment rate per capita	647M ³ (TZ – 2,696M ³ , UG – 2,940M ³)
Irrigation water development	5% of potential – 5,000 ha per annum
Infrastructure for surface water storage per capita	5.3m ³ (down from 11.4m ³ per capita in 1960)
Non revenue water for WSPs	Average - 45%
Annual investment gap	USD 1.2B (required – USD 1.7B, GoK allocation – USD 500M) ❷

Source: AfDB Kenya Country Strategy Paper 2014 - 2018, Kenya National Water Services Strategy: 2007 - 2015 Plan



2 The water financing gap

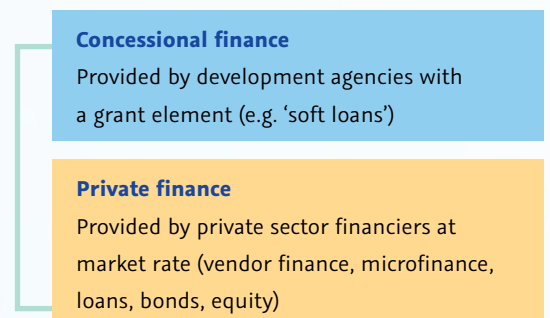
The Kenyan National Water Plan 2030 indicates that over USD 2 billion annually is needed for the coming years. As public budget cannot cover these investments for water alone, other sources are needed. However, there is a lack of investment-ready and/or bankable initiatives and there is a lack of understanding of the water sector by lenders and investors. Financing expertise in

the development stage of water initiatives is required to bridge the gap between water and finance sectors. In the picture below a schematic done by the World Bank shows a very general, but illustrative overview of funding and financing of public goods and infrastructure in general and water in particular.

Funding sources (3T's)



Repayable financing



Key

- Private funds
- Mixed public and private funds
- Public funds

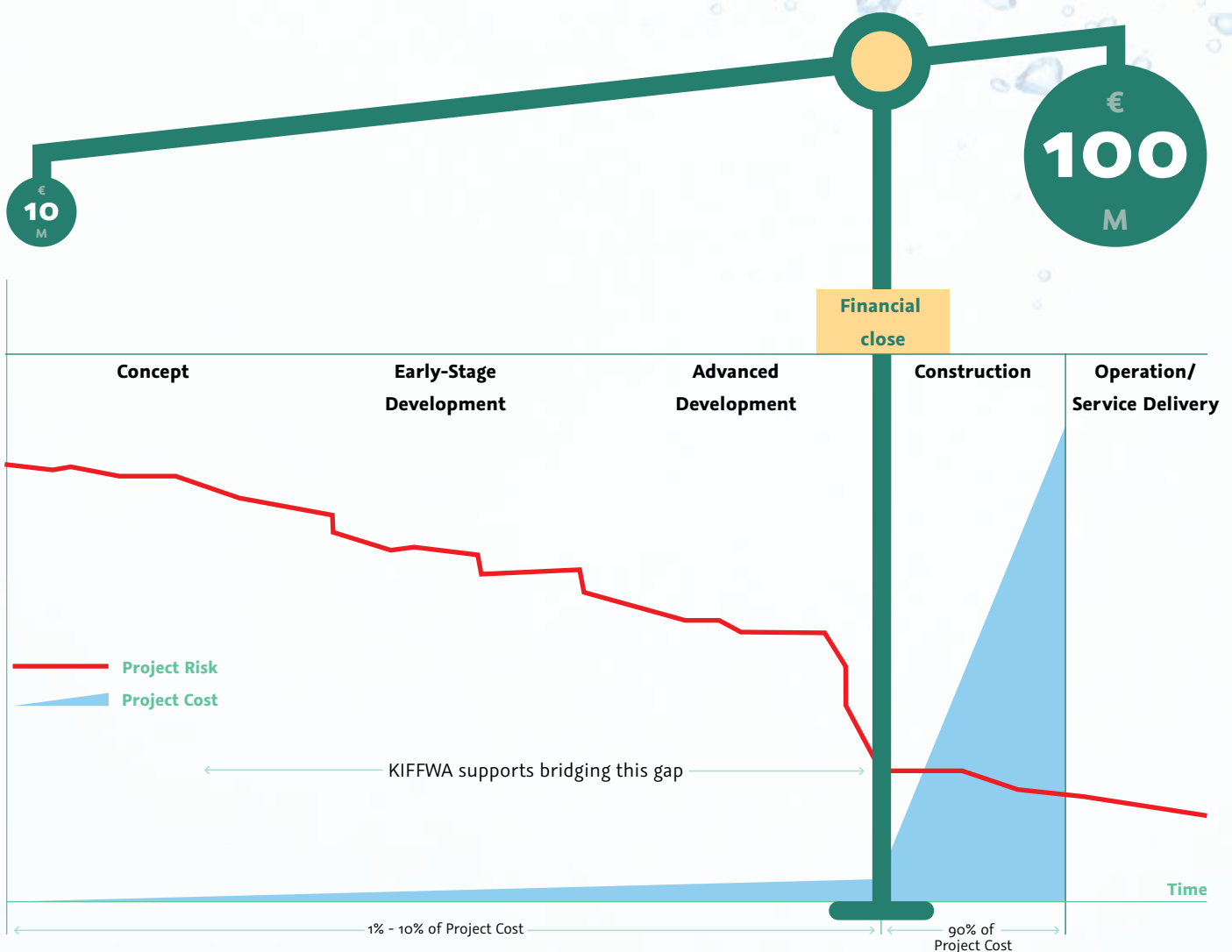
Source: Easing the transition to commercial finance for sustainable water and sanitation, World Bank, August 2017

KIFFWA - How

How to mobilise 100 million worth of water investments with 10 million?

- KIFFWA pursues an innovative way of deploying development funds and commercial capital to water initiatives in Kenya, by providing early stage capital and expertise to developers of water initiatives. In that way KIFFWA acts as a co-developer of a given water initiative and 'de-risks' the lead developer of that initiative during the development phase, typically the most risky phase of any initiative. ³
- Besides offering capital during the development stage KIFFWA's unique selling point is to bring water-financing expertise to the table: structuring the initiative as such that it becomes investment ready and attractive for different types of financiers.
- With a start up grant of €10 million over the period 2016-2019 the local KIFFWA organization is set up and capitalized enabling investments in a pipeline consisting of 15 to 30 water initiatives representing a value of €50 to €150 million.
- In order to operate in a financially sustainable way, KIFFWA expects to earn back its investments, allowing KIFFWA to continue operations after 2019.
- Repayment conditions need to be negotiated between the lead developer and KIFFWA; at financial close KIFFWA either exits directly (one off fee) or remains shareholder (equity share) or creditor (loan). ⁴

3 Creating leverage by de-risking the development phase



'As a co-developer with capital and financial engineering capability, KIFFWA de-risks the development phase of water initiatives, creating optimal leverage in that way'

KIFFWA - What

What does KIFFWA look like?

4 The KIFFWA Universe

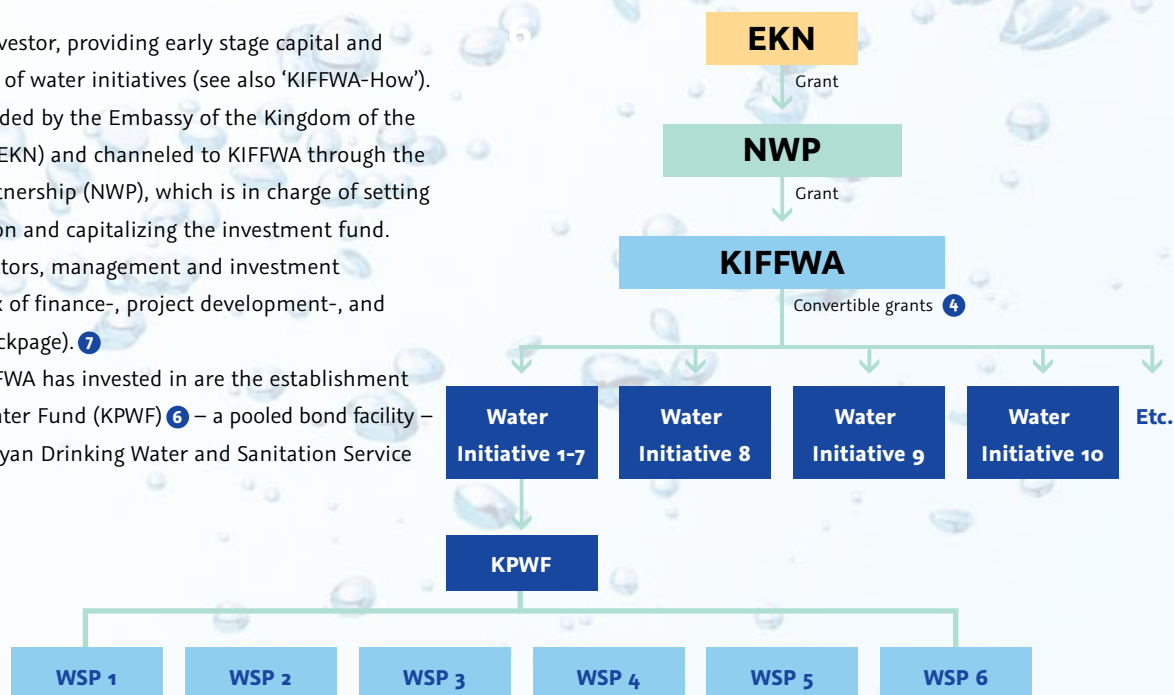
The KIFFWA universe consists of all water sub sectors, a flexible set of financial products and rigorous selection criteria. Being an impact investor in water initiatives, it is at the heart of KIFFWA's business to address environmental, social and governance issues alongside financial viability.

Products	All Sub Sectors Eligible	Selection Criteria
Convertible grants: when financial close is reached (success), the grant is converted into a one off fee, an equity stake or a loan. In case financial close is not reached (failure) the contribution is a grant.	Ports	Positive Environmental Impact
	Hydro power	Positive Social Impact
	Drinking Water	Financial Viability
	Industrial Water	Technology Transfer
	Irrigation	Strong Lead Developer
	Sanitation & Hygiene	Sound Governance
	Integrated Water Resource Management	
	Flood protection	

'KIFFWA provides financial and technical support to developers of water initiatives in order to catalyze investment and growth of the water sector'

5 The KIFFWA Organisation

- KIFFWA is an impact investor, providing early stage capital and expertise to developers of water initiatives (see also 'KIFFWA-How').
- Start up capital is provided by the Embassy of the Kingdom of the Netherlands in Kenya (EKN) and channeled to KIFFWA through the Netherlands Water Partnership (NWP), which is in charge of setting up the local organization and capitalizing the investment fund.
- KIFFWA's board of directors, management and investment committee is a fine mix of finance-, project development-, and water expertise (see backpage). ⁷
- The first initiatives KIFFWA has invested in are the establishment of the Kenya Pooled Water Fund (KPWF) ⁶ – a pooled bond facility – and its portfolio of Kenyan Drinking Water and Sanitation Service Providers (WSP's).



KIFFWA - Highlights 2016-2017

January 2016 **Kick-off** The Kenya Innovative Finance Facility for Water (KIFFWA) programme kicked off in January 2016 with three different working groups setting up both KIFFWA and its first initiative: the Kenya Pooled Water Fund (KPWF).

January 2016 **Investment in first initiative starts** The KPWF is a pooled financing facility that aims to provide Kenyan WSPs access to long tenor local currency finance by unlocking the local capital market in Kenya for their drinking water and sanitation infrastructure projects. **6**

Throughout **Meeting the Kenyan Water Sector** Staffed with dedicated water and financial professionals, a total of approximately 30 missions to Kenya took place, jointly forming the driver for the results achieved so far. KIFFWA and KPWF were presented on many meeting including the African Water Association conference in Nairobi in February 2016 and the Kenya Water Week in November 2016.

Throughout **Creating the enabling environment** The Embassy of the Kingdom of the Netherlands in Kenya (EKN) has played a fundamental role for both KIFFWA and KPWF to generate the needed political and institutional support. This has especially been important for establishing the KPWF, as credibility and trust determine the success or failure of attracting the needed institutional investors to buy future KPWF bonds.

November 2016 **Business plans** The lion's share of activities realized in the first three quarters of 2016 have been the preparation of two business plans (KIFFWA and KPWF); both of which were approved in November 2016 by EKN in Kenya.

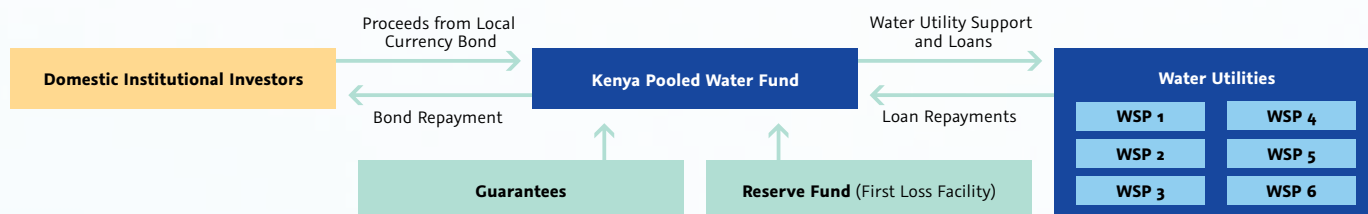
1 October 2016 – 30 June 2017 **Establishment and staff recruitment** Anticipating on this approval, the working groups already laid the foundations for establishing the KIFFWA and KPWF (legal) entities/independent organizations and the first steps have been made to recruit high quality, seasoned professionals to staff both KIFFWA and the KPWF as soon as the respective organizations run independently.

Throughout since 1 July 2016 **Pipeline of initiatives** The current KIFFWA pipeline is dynamic and a thorough selection of a long list of 30 initiatives has led to tentatively selecting 6 promising initiatives, in addition to the KPWF and the 6 selected WSPs that will borrow from the KPWF (see figure 6). Various sub-sectors are represented in the KIFFWA pipeline, ranging from drinking water to desalination, (water for) agriculture and (green) port development.

Throughout since 1 July 2016 **Cooperation with development partners** Discussions have been held for the mobilization of development partners, for potential cooperation on either KIFFWA organisation level, or on the level of the initiatives that KIFFWA invests in.

Throughout **Spreading the message** For purposes of consultation and to foster goodwill and promote KIFFWA and the KPWF, representatives of the teams have attended meetings in 8 different national and international publications, and has been (re)presented at 9 meetings and conferences, taking place in Hungary, Kenya, Sweden and The Netherlands. The launch of the local organizations is anticipated to take place late 2017 or early 2018.

6 KIFFWA's first initiative - KPWF



7 Who's who and how to get in touch

KIFFWA Board of Directors



Susan Mudhune (Chair) Carlo van Wageningen Johan Kruger Joris van Oppenraaij

KIFFWA Management



Joseph Murubula (CEO) Evans Wesonga (Associate)

Investment Committee



Johan Kruger (Chair) Annabell Waititu



Hein Gietema Imran Kahn Kevin Kamemba

'It is our ambition to set an international example for co-developing water initiatives in emerging markets'



Contact

KIFFWA Ltd
Kenya Innovative Finance Facility for Water
05 Dik Dik Gardens
Kileleshwa, Nairobi
Kenya
E info@kiffwa.com

Download the KIFFWA quick scan template at www.kiffwa.com