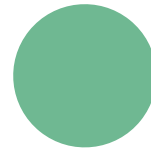


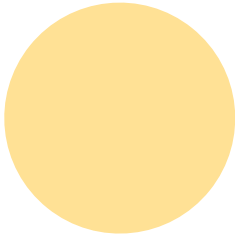


KIFFWA

KENYA INNOVATIVE FINANCE FACILITY FOR WATER



Netherlands
Water Partnership



The Hague,
September 2023

Annual Report 2022



Table of Contents

Executive Summary	3
1. Introduction	5
2. KIFFWA achievements in 2022	6
2.1 Core Business Activities	6
2.1.1 Pipeline management - Overview KIFFWA portfolio	6
2.1.2 Evaluation of new projects	9
2.1.3 Projects in active development	9
2.1.4 Progress towards results framework based on Key Performance Indicators (KPI)	11
2.2 Business Support Activities	14
2.2.1 Enhancing Governance	14
2.2.2 Staff development	15
2.2.3 Marketing & Communication	16
3 Challenges and Risks	18
3.1 Inflation risks	18
3.2 Supply Risk	18
3.3 Political Risk	18
3.4 Funding Risk	18
3.5 People and Performance Challenge	18
3.6 Investment Challenge	19
4 Funding and Liquidity	20
4.1 KIFFWA programme funding	20
4.2 Search for a strategic partner	20
4.3 Scenarios and sustainability	21

Executive Summary

As we settle into 2023, we are proud to announce that we closed out 2022 with our portfolio comprising investment in 12 water initiatives making a significant impact in households and lives across Kenya.

These initiatives had a total combined project size of EUR 145.8 million and development budget of EUR 12.9 million implying a potential leverage of 1:11.3 on private finance.

Transitions and sustainability were the buzzwords for KIFFWA in 2022.

Internally, KIFFWA CEO, Joseph Murabula stepped down from his role on 30th September 2022 to take up another opportunity elsewhere. The Board resolved to replace him on an interim basis with Duncan Onyango to combine the KIFFWA Limited Chair role and some of the CEO responsibilities with the assistance of Mr. Erik Labee as the General Manager.

The deliverables for the remainder of the year were then clarified to be as follows:

1. Actualize a strategic partnership between KIFFWA and an organisation or organisations with similar mission;
2. Finalise the remaining activities to enable rebranding of KIFFWA as a 'water-climate' fund;
3. Carefully manage the ongoing transition from the Netherlands Water Partnership (NWP) as a program manager;
4. Raise funds for KIFFWA among both local and international donors.

The combined effect of these deliverables presented an opportunity for KIFFWA to continue its journey to becoming a truly impactful water-climate fund.

Deliverable 1 was structured as follows:

- a International search led by Hein Geitema focusing on the institutions within the Private Infrastructure Development Group (PIDG).
- b An initiative to establish a locally driven partnership to accelerate water-lens investing to enhance climate resilience in the region. The global climate change crisis is inextricably linked to water.

Deliverable 2 forms a large part of the KIFFWA communication policy which is described in Section 2.2.3. Deliverables 3 and 4 are incorporated in the activities underpinning the search for a strategic partner.

It will be difficult to discuss 2022 without talking about the effect global politics had on functioning of the local economy and the water sector in particular. For example, the war in Ukraine had far-reaching consequences to businesses in the East Africa region. It impacted global supply chains and pushed up international commodity prices. Tightening household budgets due to the rising costs of food, fuel and energy, became a huge problem for regional policy makers. Given the region's dependence on food imports from around the world, it is highly sensitive to the global food supply crisis. In addition to the region's dependence on food imports, its countries have heavier weightings of foodstuffs in their respective consumer price index baskets. The result was rising inflation which proved difficult to manage forcing some central banks to raise interest rates in an attempt to lower prices. The unintended consequence of the Ukraine war is the redirection of global funds towards humanitarian causes which inevitably reduced the amounts available for investing – this had a delayed effect on achieving financial close on some of our water projects.

Secondly, Kenya held what was its most competitive general elections in August which, in respect of the Presidency, culminated in a legal challenge at the Supreme Court of Kenya whose decision to uphold the results was delivered in

September. This further delayed access to government services and ability for our hydropower projects to negotiate and conclude on PPAs.

On the economy, the Central Bank of Kenya unexpectedly raised its key interest rate for the first time since July 2015 to restrain rising inflation expectations due to concerns about rising commodity prices and to restore stability in currency market. The monetary policy committee increased the rate by 50 basis points to 7.5%. Inflation quickened to 6.5% in April, edging closer to the central bank's 2.5% to 7.5% target band.

To soften the blow of increasing prices, the Kenyan government decided to continue paying fuel subsidies. This decision came after the country bore the brunt of severe shortages at filling stations early in the year as the government delayed subsidy payments to oil companies. While the subsidy provided some relief to consumers, it further strained Kenya's public finances.

The strain in local public finances, rise in interest rates and Ukraine war slowed down our ability to raise funds as most funding sources diverted their funds towards humanitarian efforts.

The total underspending in 2022 can largely be explained by the partial refocusing of our business activities, delayed investments in initiatives and by lower expenditure than budgeted on governance and staffing.

The year 2023 looks optimistic as we look forward to at least two financial closes for the projects currently undertaken, more financial investment into the organization from various partners and a more stable political and economic climate.



1 Introduction

We are pleased to present the Annual Report 2022 of the Kenya Innovative Finance Facility for Water (KIFFWA). In addition, we wish to record our appreciation to the Embassy of the Kingdom of the Netherlands (EKN) for financial, moral and logistical support since the inception of KIFFWA.

The year 2022 was a year with 2 faces. On the one hand, some economic developments were revived after 2 Covid-19 years. We were able to meet people in person again and to visit our project sites. In general, it accelerated the development phases of our projects. On the other hand, 2022 was not only an election year in Kenya but we also faced the effects of the war in Ukraine.

This resulted, among other things, in political risks and uncertainty which led to a wait and see approach by potential investors. It also led to a slow pace of the reforms in the Energy Sector, affecting the progress of our hydro power projects.

Altogether, it was therefore another challenging year.

Nevertheless, we have achieved a number of noteworthy results:

- The search for a strategic partner gathered pace during the year following two strands: an international search and an initiative to establish a locally driven partnership;
- We were able to meet approximately half of the targets of our Key Performance Indicators which is overall an explicable result given the above-mentioned circumstances;
- And last but not least we substantially increased and professionalized our visibility in the market, guided by our marketing and communication plan.

The objective of this 2022 Annual Report is to elaborate on KIFFWA results and milestones and to report risks/challenges including mitigation actions: Chapter 2 highlights the achievements in projects in the year 2022. Chapter 3 provides the challenges and risks presented in 2022. Finally, chapter 4 describes funding and liquidity.

2 KIFFWA achievements in 2022

The achievements over 2022 are discussed in the paragraphs below, firstly focusing on our core business and secondly on the business support activities that took place in 2022.

2.1 Core Business Activities

2.1.1 Pipeline management - Overview KIFFWA portfolio

- In line with its objective to focus on promising initiatives, KIFFWA carried out a review and reorganization of its pipeline in the course of 2022 (including an update of project sizes). At the end of 2022 The KIFFWA portfolio comprises 12 initiatives with a total combined project size of EUR 145.8 million and a

combined development budget of EUR 12.9 million implying a potential leverage of 1:11.3 on private finance.

- KIFFWA has committed EUR 4.6 million towards the development of all projects and has disbursed EUR 2.7 million to date representing 59% of the KIFFWA committed amount.
- 6 initiatives are under active development (post JDA) with 5 of these initiatives being in the late development stage and currently fund-raising debt and/or equity for the construction phases.
- The 6 initiatives under active development have combined project size of EUR 38.8 million and a development budget of EUR 5.5 million. The KIFFWA committed amount is EUR 1.7 million and disbursed EUR 0.78 million to date.



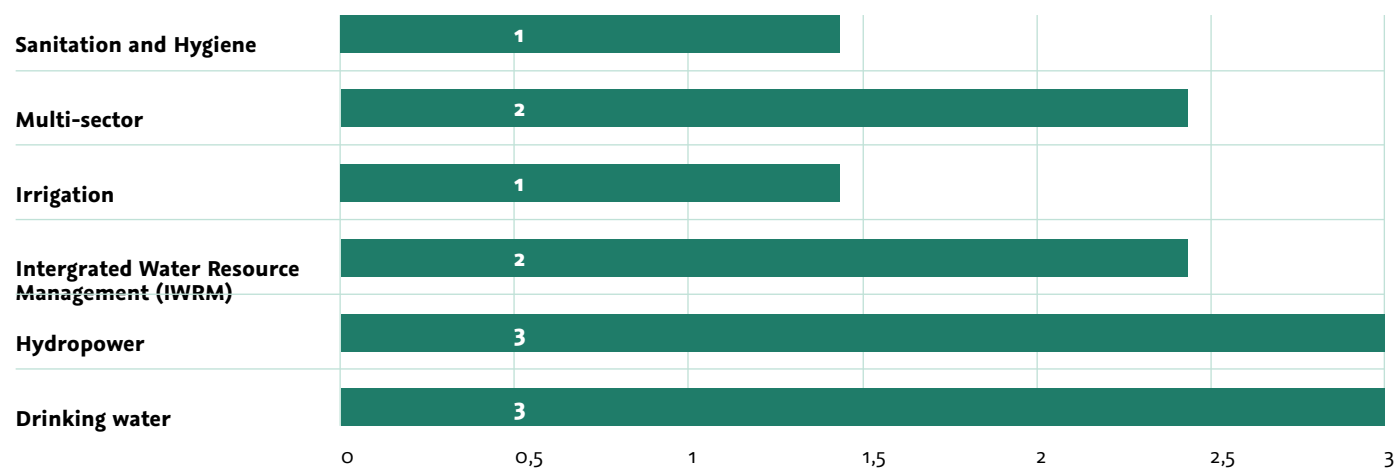
A summary of the 12 initiatives at the end of the year is as follows.

Project	Lead Developer	Status/Stage
1 Phase I – Scaling up of a small commercial community water purification and distribution system	Watershop Naivasha Limited	- Financial Close
2 Establishment of a Social Equity Fund for Small and Growing Businesses	TAS Management B.V.	- Exit
3 Restricted Public Debt Offer of up to 1 billion Kenyan Shilling (Kshs) for selected Water Service Providers (WSPs) – Note 1a	Kenya Pooled Water Fund	- Exit Ongoing
4 Bulk Water Supply Project	Miraadi Limited	- Exit Ongoing
5 Moringa production under irrigation and processing of nutraceutical products	Mavuno Afya Limited	- Post JDA - Early stage development - On hold
6 Phase II – Scaling up of a small commercial community water purification and distribution system	Watershop Naivasha Limited	- Post JDA - Fund Raising
7 Development of a commercial water supply scheme in Mbooni	OMITCO	- Post JDA - Fund Raising
8 Advanced metering, billing, and communication infrastructure for the water sector	Earthview Management Limited	- Post JDA - Fund Raising
9 Development of a 7.8MW mini hydro power plant	Sky Notch Limited	- Post JDA - Late-stage development - Fund Raising
10 Development of a 3MW hydropower project	Africa Resource Consulting (ARC)	- Post JDA - Late-stage development - Fund Raising
11 Waste-to-Resource Project	NAWASSCOAL	- MOU - Review - Restructuring ongoing
12 Bomet hydropower station	Hydrobox Projects	- Quick scan

The table below shows the project portfolio by investment stage at the end of 2022.

Amount in Million Euro € (except No. of Initiatives)			
KIFFWA - Investment Stage	No. of Initiatives	Development Budget	Total Project Size (excl. development budget)
1 Quick Scan	1	0.3	1.5
2 MOU	1	0.9	9.6
3 Post JDA/Portfolio	9	11.7	133.9
4 Financial Close	1	-	0.82
Total Number of Initiatives	12	12.9	145.8

The table below shows the project portfolio by water subsector by the end of 2022.



The table below shows the project portfolio by geographical distribution by the end of 2022.

Amount in Million Euro € (except No. of Initiatives)			
Region	No. of Initiatives	Development Budget	Total Project Size (excl. development budget)
Coast	2	5.20	47.5
Countrywide	3	4.13	58
Eastern	2	1.99	14.7
Rift Valley	4	1.24	14.8
Western	1	0.32	10.8
Total Number of Initiatives	12	12.9	145.8

2.1.2 Evaluation of new projects

We have received a Quick scan for a hydropower station project based in Bomet County. The expected project size is EUR 1,500,000 with a development budget of EUR 296,000. The project is about installing a standardized, containerized and remotely monitored hydropower plant with a capacity of 337 kW. It will reduce CO₂ emission with 810 tons/year. In this project one large tea factory will consume all the power that is being generated. Any leftover will be sold gridless to anchor customers. The Quick scan is currently under evaluation.

2.1.3 Projects in active development

Advanced metering, billing and communication infrastructure for the water sector

Project Brief

The development and implementation of a National Advanced Metering Infrastructure (AMI) for online capture of Abstraction and Telemetry data (the "Project") for the Water Resources Authority (WRA). The project would be implemented in phases as follows:

Phase I: the development of back-end systems within WRA which will:

- Support the AMI
- Enhance WRA's institutional capacity
- Facilitate logistics and equipment for Project Implementation
- Facilitate field exercises for WRA capacity building on the systems; and

Phase II: funding and supporting water abstractors and water users through the provision of financing for the acquisition/lease of (or conversion/upgrade of existing) 15,000 meters to smart meters.

Key achievement(s) on this project in 2022

- Testing of the systems successfully completed;
- Upgrade of the internet facilities in the regional offices;
- Interest of Indigo USA Global to finance acquisition of abstraction meters;
- Interest of Aqua 4 All to provide Results-Based-Financing to public WSPs.

Next key steps and outlook to financial close

- Obtaining a Project Implementation Agreement with WRA for Phase II of the Project;

- Obtaining funds from Indigo USA Global to finance the acquisition of up to 1,500 electromagnetic and ultrasonic bulk smart abstraction meters;
- Prequalification of the project SPV by WRA in the tender 'Prequalification of Suppliers for Supply and Installation of Water Smart Meters';
- Additional fundraising.

The expected first financial close is in Q2/Q3 2023.

Development of a commercial water supply scheme in Mbooni West, Makueni County

Project Brief

The development of a water treatment and distribution system covering both Makueni and Machakos counties in the Eastern region of Kenya.

- The proposed infrastructure for the water supply scheme will comprise of intakes from identified water sources, water pan, a KWAT treatment plant, storage tanks, and supporting water distribution infrastructure comprised of water kiosks and water trucks (browsers).

Key achievement(s) on this project in 2022

- Final detailed feasibility study completed;
- Review of final technical design including CAPEX completed;
- NEMA License obtained;
- Water Use Authorization obtained to construct works on the 5 water sources;
- Wayleaves for the pipelines obtained from the Kenya Rural Roads Authority;
- Letters of No Objection obtained from County Government of Makueni, Mbooni Water and Sanitation Company, the Water Resource Users Association (WRUAs) in Makueni and the local area chief;
- Final Land valuation report obtained;
- Financial model finalized;
- National Bank of Kenya has provided a preliminary debt term sheet. The terms are yet to be negotiated with NBK;
- KCV have shown keen interest for equity investment
- InfraCo has expressed interest to support the project using a mix of direct equity and a shareholder loan.

Next key steps and outlook to financial close

- Project asset registration and transfer to the project SPV;
- Registration of the lease agreement for the land for the treatment plant;
- Letter of No Objection from the County government of Machakos;

- Service provision license from WASREB;
- Revive the conversations with Infracore and KCV / Fundraising.

The project target financial close is in Q2/Q3 2023.

Development of a 7.8 MW mini hydro power plant

Project Brief

The proposed Mutunguru Hydro Power Station is a 'run of the river' hydropower project located on Igoji River in Meru County.

- The project seeks to add an additional 7.8MW of power to the national grid.
- The project utilizes a community-developer model where the community and the developer have a shareholding stake and share revenues.
- The community owns 51% of the project development SPV.

Key achievement(s) on this project in 2022

- The project achieved a significant milestone in 2022 by entering into a partnership agreement with Hydroneo East Africa, the potential equity investor at Financial Close. In addition Hydroneo has committed additional funding after signing of a Power Purchase Agreement (PPA);
- Obtained initial authorization from the affected land owners, who have all signed the consent form needed for permit application;
- Land valuation report completed.

Next key steps and outlook to financial close

- Finalizing the Update of the feasibility study, including geotechnical survey;
- Finalizing the Update of the hydrology study and the Environmental and Social Impact Study to incorporate the variations in the design and layout of the project;
- Finalize Lease acquisition process for the land where the pipeline is situated;
- Secure the land for the intake and powerhouse through outright purchase;
- Resumption of PPA negotiations and obtaining a PPA;
- Obtaining extension of the NEMA License, which has currently lapsed;
- A fresh application to WRA for obtainment of the water abstraction rights;
- Obtaining generation license;
- Signing of a Joint Venture Agreement (JVA) between MHCL, Hydroneo and KIFFWA;
- Registration of the SPV between KIFFWA, Hydroneo, and MHCL;
- Signing of Shareholders' Agreement;

- Solving a dispute between the lead developer and the company Virunga about investment in land and abstraction rights;
- Fundraising.

Financial close is highly dependent on obtaining a Power Purchase Agreement (PPA). Based on the slow pace of the reforms in the Energy Sector, the current tentative target date of financial close for the project is end of Q4 2023.

Scaling up of a small commercial community water purification and distribution system

Project Brief

- The project concept involves the use of a commercial borehole to purify water, using advanced (reverse osmosis) technology and then distribute the water via water bowsers to retail kiosks located in urban and peri-urban areas.
- The objective of Phase 2 is to deepen the company's presence in the 5 counties it already operates in (Nakuru, Nairobi, Kajiado, Kiambu, Machakos) and explore possible expansion into other preselected counties across Kenya.

Key achievement(s) on this project in 2022

- New Market study completed;
- Feasibility Study / Business Plan completed. Marketing activities commenced thereafter;
- Received non-binding term sheet from Incofin;
- Received non-binding term sheet from National Bank of Kenya.

Main challenge(s) encountered on the project in 2022

- The ongoing issue with KRA regarding the application of Excise Tax on the company's products remained unresolved in 2022. The matter is now before the Court of Appeal;

Next key steps and outlook to financial close

- Update of the Business plan, incorporating 2022 financial performance;
- Expand investor list and send out an updated teaser for the project;
- Obtain an updated term sheet from Incofin;
- Additional fundraising;
- Get clarity from the Ministry of Water on the issue of charging Excise Tax on the company's products, as the Ministry is informally in meetings stating that Excise Tax is not applicable for non-bottled water;
- The Lead Developer has indicated that despite the delay in obtaining external financing, the company will utilize internal resources to roll out 50 outlets in 2023. These outlets will be fully-owned by Purefresh as the company seeks to phase out the franchise model.

We currently expect to achieve a conditional financial close with Incofin in Q2/Q3 of 2023.

Development of a 3MW hydropower project

Project Brief

- The proposed Lihanda Hydro Power Station is a 'run of the river' hydropower project located on River Yala in Siaya County.
- The project seeks to add an additional 3.3 MW of power to the national grid.

Key achievement(s) on this project in 2022

- The project SPV has been registered and comprises ARC (Lead Developer), ECTL (Lead Developer), ATM Engineering (Lead Developer) and KIFFWA (Co-developer), as the parties;
- The parties agreed on restructuring the shareholding for the project. This was done to conform to the guidelines under the latest Feed-in-Tariff policy that requires the initially-approved Lead Developer (ARC) to be allocated a minimum shareholding of 30%. ECTL agreed to cede some of its shareholding to ARC;
- The project is receiving fundraising/transaction advisory support from the Project Financing Advisory Network (PFAN). The PFAN team has refined the financial model and prepared an Investment Memorandum for the project;
- Received interest of Serengeti Energy to invest in the project;
- Land survey report completed.

Main challenge(s) encountered on the project in 2022

- The Government of Kenya did not lift the moratorium on Power Purchase Agreements (PPA's) in 2022.

Next key steps and outlook to financial close

- Update Shareholders' Agreement;
- Registration of the signed wayleaves and lease agreement;
- Resumption of PPA negotiations and obtaining a PPA;
- Renewal of the NEMA license for main project site;
- Obtaining NEMA License for the transmission line (subject to approval of the Grid Connection Study by Kenya Power);
- Obtaining generation license;
- Continue discussions with Serengeti Energy;
- Additional fundraising.

Though investors are showing interest in the project, financial close is highly dependent on obtaining a Power Purchase Agreement (PPA). The tentative target date of financial close for the project is end of Q4 2023.

Moringa production under irrigation and processing of nutraceutical products

Project Brief

- The project entails production of Moringa on 2,400 acres of land in Magarini sub-county, Kilifi County.
- Proposed activities include development of a reliable water source, construction of a processing factory for nutraceutical products, land preparation and installation of drip irrigation system.

Key achievement(s) on this project in 2022

- Terms of Reference for Water Resources Study completed;
- Request for Expression of Interest sent out and a shortlist of potential Consultants for the Water Resources Study ready;
- Letter of No Objection for drilling a borehole.

Next key steps and outlook to financial close

- Obtaining legal land documents for the initial 230 acres;
- Procurement of consultant for Water resources study will kick off after securing legal land documents;
- Other studies will kick off only after positive feedback on water resources availability.

Based on the current situation a tentative target date of financial close for the project cannot be determined.

2.1.4 Progress towards results framework based on Key Performance Indicators (KPI)

The following projects and businesses contributed to the 2022 results:

- Scaling up of a small commercial community water purification and distribution system
- Development of a commercial water supply scheme in Mbooni
- Advanced metering, billing, and communication infrastructure for the water sector
- Development of a 7.8 MW mini hydro power plant
- Development of a 3.3 MW hydro power project
- Moringa production under irrigation and processing of nutraceutical products
- Waste-to-Resource project

Partners supporting project development (excl. Lead Developers). KPI target = 4

In 2022 we have worked with 4 partners in our project development:

- PFAN in the Lihanda project. PFAN is the Private Financing Advisory Network. This is a global network of climate and clean

energy financing experts. PFAN provides technical advisory on the project.

- ILF for WASH in the Purefresh business. ILF for WASH is the Impact-Linked Fund for Water, Sanitation and Hygiene. They are supporting impact modelling on the business through Umoja Incubator.
- Hydroneo in the Mutunguru project. Hydroneo develops, finances, builds, and operates small and medium renewable energy plants. Their support includes provision of technical advisory services on technical and permits due diligence, financial due diligence, review of the Power Purchase Agreement (PPA), supervision of the feasibility study update, supervision of the topographical survey and review of land acquisition.
- Aqua 4 All in the Earthview business. Aqua 4 All has proposed a partnership under which they will provide a results- based financing (RBF) package to public water service providers (WSPs) acquiring smart meters from the business. WSPs to take up the smart metering for abstraction.

Value of other co-developer contribution.

The current value of contributions of other co-developers in 2022 is valued at 153,5k EUR. In addition, a contribution worth 250k EUR has been discussed, but has not yet been committed:

- Hydroneo in the Mutunguru project.
- PFAN in the Lihanda project.
- Kenya Climate Innovation Centre (KCIC) in the Mavuno Afya project.
- InfraCo in the Omitco business. The team is negotiating a grant towards the proposed ESG program to address sanitation and hygiene, catchment conservation and support clean energy.

KIFFWA funds disbursed to projects.

Disbursements were negatively impacted due to:

- 1 The investment committee declined management proposal to participate in the second phase of the Purefresh business
- 2 The disbursement target for Mutunguru was not achieved due to the slow pace of the update of the Feasibility study. The main reasons for this are: delayed access to land, discussion with the consultant about the scope of works, the work sequence and the quality of draft reports delivered.
- 3 Lihanda's disbursement target was not achieved due to the lack of progress in the energy sector reforms that impacted the project milestones that are linked to obtainment of a PPA from KPLC.
- 4 Due to failure to secure land title deeds the Mavuno Afya business didn't take off yet.

- 5 The Nakuru Waste-to-Resource project was terminated: The disbursement target for the project was not achieved because one of the lead developers, SCODE, opted to renege on the termsheet that had already been signed by the parties. The investment agreement was therefore never consummated. KIFFWA then decided to vacate the JDA with SCODE.

Licenses/permits. KPI target = 9

In total 6 permits had been obtained from government agencies in the year 2022 to support the development of the Omitco project:

- 1 NEMA license – Mbooni Water Treatment and Distribution (March 2022)
- 2 WRA Approvals - Water Authorization to construct works Kikumu River (May 2022)
- 3 WRA Approvals - Water Authorization to construct works Muangani Springs (March 2022)
- 4 WRA Approvals - Water Authorization to construct works Mutanda Springs (March 2022)
- 5 WRA Approvals - Water Authorization to construct works Ndumoni River (May 2022)
- 6 WRA Permit – Nzaini River

The KPI of 9 licences/permits was not achieved because of the stalled Mavuno Afya business.

Letters of Support/No Objections. KPI target = 6

In total 5 letters of no objection had been obtained from government agencies in the year 2022 to support project development:

- 1 Mavuno Afya: Letter of No objection for drilling of a borehole.
- 2 Omitco: Kenya Rural Roads Authority (KeRRA) – Letter of No Objection for wayleaves (July 2022)
- 3 Omitco: Letter of No Objection Makueni County Government (June 2022)
- 4 Omitco: Letter of No Objection Mbooni Water and Sanitation Company (June 2022)
- 5 Omitco: Letter of No Objection from the local area chief – Kalawani location (Mar 2022)

Additional Letters of Support/No Objections were expected for the stalled Mavuno Afya business.

KIFFWA management did not actively pursue a Letter of No Objection from Machakos County Government and the respective public WSP in Machakos for the Omitco project, owing to a transition period in the county government during the electioneering period.

Technical studies completed. KPI target = 6

In total 6 technical studies have been completed in the year 2022:

- 1 Land survey report for the Lihanda project
- 2 Land valuation report for the Mutunguru project
- 3 Feasibility study for the Purefresh business
- 4 Feasibility study for the Omitco business
- 5 Land valuation report for the Omitco business
- 6 Draft Detailed Feasibility study for the Omitco business

A pre-feasibility update for the Nakuru Waste-to-Resource project and a Water Resources Study for Mavuno Afya were not conducted because of termination of the Waste-to-Resource project and failure of the Lead Developer to secure land title deeds for the Mavuno Afya business.

Financial models completed. KPI target = 3

In total 3 Financial models have been completed in the year 2022:

- 1 Purefresh business
- 2 Lihanda project
- 3 Omitco business

Project structures completed. KPI target = 4

In total 2 project structures have been completed in the year 2022:

- 1 Omitco business
- 2 Earthview business

A project structure for the Mutunguru project was not yet achieved because vetting by the government on approval of the SPV for the project took much longer than usual.

Projects taken to Financial Close. KPI target = 4

It was expected that 4 projects could reach a partial or full (conditional) Financial Close in 2022. The reasons why the projects have not yet reached a full Financial Close are listed below:

1 Omitco business

- Various potential investors have been approached for the Omitco business. Promising discussions were held with InfraCo and KCV to inject equity investment into the project.
- A preliminary debt term sheet was obtained from National Bank of Kenya (NBK) to provide debt financing. The term sheet is yet to be negotiated and firmed up by the parties. InfraCo expressed interest to be included in the negotiations of the debt terms.
- During the year, interest in the project declined, mainly due to the low return on investment, growing doubts about the feasibility and the fact that the project has limited scalability.
- Therefore KIFFWA management has decided to make some changes to the design of the project resulting in a successful increase of feasibility, scalability and return on investment.

- As a result, InfraCo remain interested in the opportunity including providing towards the ESG program proposed for the Project. A firm offer is yet to be received from InfraCo.
- KCV presented the investment proposal to their IC in November 2022 and reported positive interest provided that the project sponsors (KIFFWA and Omitco) address 3 concerns:
 - 1 Full financial close
 - 2 Transfer of Assets
 - 3 Final capital structure
- The amended proposal will be brought to the attention of potential investors again in the first quarter of 2023.

2 Earthview business

- Various potential investors have been approached for the Earthview business. It has emerged that there is limited interest in the first part of the pilot stage of the implementation phase (buying the first batch of meters). However, there is interest in the scale-up phase of the project.
- It has therefore not yet been possible to start the implementation phase as the project promoters themselves have insufficient starting capital to buy the first batch of meters.
- Nevertheless, an offer to finance public WSPs to obtain abstraction meters was obtained from NBK in Jul 2022. However, the WSPs showed limited interest in the second half of 2022 because public WSPs did not feel the need to purchase smart meters at that time. As a result of clear instructions from the central government, the urgency is now being felt.
- In addition, Aqua 4 All gave an in principal approval in August 2022, to provide WSPs with a Results-Based Financing subject to submission of a Full Proposal for the initiative. The full proposal is being developed at a very slow pace because the Lead Developer, despite KIFFWA's insistence, provides limited input to complete the proposal.
- Several parties have now shown interest in the business, including the start-up phase.

3 Purefresh business

- After a successful Financial Close of the first phase of the Purefresh business, the second phase failed to meet financial close in 2022 owing to a delay in concluding negotiations with Incofin, who had expressed interest in investing in Phase 2.
- The main reason is that Incofin is still in the process of finalizing the setup of the investment vehicle that will be used to finance their participation in Purefresh Phase 2.
- We anticipate that the investment by Incofin could be concluded by the second half of 2023.

4 Mutunguru project

- The Mutunguru project achieved a significant milestone in 2022 by entering into a partnership agreement with Hydroneo East Africa, the potential equity investor at Financial Close.
- The project's development has however been negatively impacted by the slow pace of the reforms in the Energy Sector, which has caused KPLC to be unable to resume PPA negotiations with the interested Independent Power Producers. We expect KPLC to resume normal business in 2023. This will enable the project to secure a PPA that will in turn get the project to financial close through the injection of construction capital by Hydroneo.

Value of funds mobilized for construction and operational phase.

Since no Financial Close has been reached in 2022, no funds have been mobilized for construction and operational phase.

2.2 Business Support Activities

To support and enhance the core business activities of KIFFWA, several business support activities took place in 2022 as discussed in the paragraphs below.

2.2.1 Enhancing Governance

Interaction with the Board of Directors (BoD)

KIFFWA endeavors to hold at least four board meetings annually (one per quarter) to deal with emerging issues and to provide guidance and strategic direction to the organization. In 2022, four board meetings were held; one being a special Board meeting called on an ad hoc basis.

A summary of the meetings held and attendance is summarized below:

Table: KIFFWA Board Meeting Attendance

Board Members	22/3/22	18/08/22	21/09/22	06/12/22	Meetings attended	
Susan Mudhune	Present	Present	Present	Present	4	
Carlo van Wageningen	Present	Present	Present	Present	4	
Johan Kruger	Present	Present	Present	Present	4	
Rick Elmendorp		Present	Present	Present	3	
Bastiaan Lammers	Present				1	
Duncan Onyango	Present	Present	Present	Present	4	
Joseph Murabula	Present	Present	Present	Present	4	

Except for the first meeting of the year, where KIFFWA CLS and the SKF hold separate meetings, the rest of the meetings are held as joint meetings of the two BoDs.

During the year 2022, the Board approved the following policies, procedures, entities, documents and decisions:

- Financial statements for KIFFWA CLS for the year 2021;
- Financial Statements for KIFFWA SKF for the year 2021;
- Annual Report of KIFFWA for 2021;
- Appointment of Rick Elmendorp as board member on behalf of NWP, succeeding Bastiaan Lammers;
- Request to restructure the Joint Development Agreement (JDA) between KIFFWA and Take A Stake (TAS);
- Operationalization of the New Human Resources Policies and Procedures that led to the promotion of KIFFWA staff from Associates to Officers;
- Acknowledgement of the exit of KIFFWA CEO Mr. Joseph Murabula and the appointment of Mr. Duncan Onyango

(KIFFWA Limited Chair) to take over his functions under the title Executive Chairperson with the assistance of Mr. Erik Labee as the General Manager;

- KIFFWA annual work plan and budget for the year 2023;
- KIFFWA ethics and compliance report for the year 2022;
- KIFFWA Capitalization Policy;
- KIFFWA Communication Policy;
- Ongoing updates on KIFFWA's search for a Strategic Partner noting the progress made and the planned way-forward;
- NWP Transition Plan – for 2023 and beyond;
- Decisions from KIKFFWA's Investment Committee.

During the year, the Board also noted the following:

- KIFFWA-EKN Day which was held on 23rd March 2022 and entailed the KIFFWA and EKN teams visiting various KIFFWA initiatives;
- Advisory Board meeting held on 7th July 2022;
- Write off of the KPWF loan and the incentives for reimbursement by DGIS/EKN;

- Continuous progress made towards the search for a Strategic Partner;
- Visit by the Dutch minister for Trade on 5th April 2022;
- Changes at NWP and the impact they would have on KIFFWA;

- The successful transition from a water impact fund that KIFFWA was originally to a water-climate impact fund that we are today.

Interaction with the Investment Committee (IC)

In 2022, two IC meetings were held. Below is a summary of the attendance by the IC members:

Table: KIFFWA IC Meeting Attendance

IC Members	05/05/22	29/11/22	Meetings attended
Johan Kruger	Present	Present	2
Hein Gietema	Present	Present	2
Annabell Waititu	Present	Present	2
Imran Khan	Present	Present	2
Kevin Kamemba	Present	Present	2
Wanjiru Ngige	Present	Present	2

In addition to a routine review of Quick scans and a regular review of the pipeline, the IC made the following recommendations to the Board for approval:

- Proposed Investment in Phase 2 of the Purefresh Project;
- Request to restructure the Joint Development Agreement (JDA) between KIFFWA and Take A Stake (TAS);
- Request for Extension of the Term of the Loan Facility and Release of an additional EUR 100,000 in Development Funding towards the Mutunguru Project;
- Additional investment into the Earthview and OMITCO Projects by Redirection of Project Funds;
- Updates on KIFFWA's pipeline projects

Development of an Assets Capitalization/Management Policy

During the Audit of KIFFWA Limited's books of account in January 2022, the Auditors: BDO East Africa directed that a Capitalization Policy be developed for KIFFWA, which would establish the minimum amount at which assets are to be capitalized, in order to avoid the possible additional administrative and accounting work of maintaining and depreciating insignificant assets.

The Policy was developed by management and presented for approval before the Board of Directors during the Board meeting of 21st September 2022.

An Assets Capitalization/Management Policy will provide guidance on the minimum value at which the assets purchased by the organisation should be capitalized and classified as assets or treated as part of the organisation's expenses. This will assist the company in differentiating between balance sheet items and income statement items.

The Policy contained in detail the following treatment of assets:

- Fixed Assets acquisition
- Insurance of Assets
- Custody and maintenance of assets
- Capitalization of assets
- Treatment of assets during work-in-progress
- Fixed assets registration
- Depreciation of assets
- Revaluation of Fixed Assets.

2.2.2 Staff development

In 2022, KIFFWA staff attended the following trainings:

- Certified Financial Analysts (CFA) course – Grace Ndegwa and Clement Wandera;
- ICS Certified Company Secretaries' Workshop – Effie Mutio

Hiring of a Marketing and Communications Associate

In 2021, KIFFWA had expressed the desire to hire a marketing and Communications Associate to market the KIFFWA organization and projects and to complement the organisation efforts in the search for a strategic partner. In April 2022 Gaylina Mayieko was hired as KIFFWA's Marketing and Communications Associate. Consequently, a number of marketing and communication activities have since been accomplished including the following:

- Rebranding of KIFFWA's communication material
- Include the NWP and EKN logos in our external communication material;
- Reorganisation of the communication templates used internally;
- Revamping the KIFFWA website to make it more vibrant and interactive;

- Bi-weekly communication with KIFFWA's stakeholders on the ongoing activities in KIFFWA and our water-climate approach (through blogs and the LinkedIn social media handle).

2.2.3 Marketing & Communication

Following the hiring of a Marketing and Communications Associate, a Communication Policy was developed and presented before the Board of Directors during the board meeting of 21st September 2022. This followed KIFFWA's need to intensify its communication with stakeholders, during its search for a strategic partner, and various requests by the Board on the matter.

The objective of this Communication Policy is to contribute to a correct and long-term effective exchange of information within KIFFWA and its employees and between KIFFWA and its external stakeholders. The Communication Policy will contribute to increased confidence in management, employees and partners and enhance knowledge of KIFFWA's profile, goals and objectives. It will further ensure consistent communication with the operating environment in accordance with KIFFWA's strategies. Information within KIFFWA is ultimately intended to support the organization's vision, mission and strategies. The Policy ought to ultimately strengthen KIFFWA's reputation and brand. To promote brand consistency, we also defined the KIFFWA pantone colors to be used on all collateral and designed standard communication collateral, that is, donor PowerPoint templates, standard PowerPoint templates, letterheads, memo format, minutes template, staff business cards format.

The year 2022 saw increased visibility in marketing and communication activities for KIFFWA. We have increased communication activities through the following media:

- Revamped the KIFFWA website to make it more interactive and vibrant
- New banners
- Designed and printed brochures
- Monthly newsletters
- Frequent blogs
- LinkedIn posts

Exposure via events

KIFFWA participated in the following events:

- Participated in the Innovate 4 WASH forum held in Kisumu held between 27th and 29th January and in Malindi between 26th and 28th October. This is a marketplace forum that brings together stakeholders in the water and sanitation sector.
- Held a donor event in partnership with the Embassy of the Kingdom of Netherlands in Kenya on 22nd June at the

Movenpick Hotel. This was a platform to introduce KIFFWA activities to other potential funding partners.

- Participated and was a panelist in the Stockholm International Water Institute Water Week in Sweden from 23rd August to 1st September. The topic under discussion was Building financial sustainability of SMEs to achieve SDG 6 after COVID.
- IWA World Water Congress & Exhibition was held in Copenhagen, Denmark from 11 – 15 September 2022. KIFFWA under NWP participated in this congress. This congress was designed to bring together water professionals and engage the water-consuming industry, agriculture, architects and urban planners, hydrologists and soil and groundwater experts, social sciences, ICT-sector, the financial sector and others.
- During the immediate former CEO's farewell party, we hosted our lead developers and other key stakeholders at the Capital Club on 21st September.
- KIFFWA, represented by NWP, joined a blended finance solutions for WASH think tank, with representatives of several key players in the sector joined a session on 24th February and hosted a session on the 3rd of June in The Hague, Netherlands.

Exposure via publications

Some of the major blogs that we shared on our website, on email and on KIFFWA's LinkedIn page are the following:

- On 5 July 2022, KIFFWA featured an article on the website, titled: "KIFFWA Partners with OPES-LCEF on SDG 6". Available online at: [click here for link to the website](#)
- On 1 August 2022, KIFFWA featured an article on the website, titled: "County Government of Makueni Supports KIFFWA's Project". Available online at: [click here for link to the website](#)
- On 15 September 2022, KIFFWA featured an article on the website, titled: "The Water to Energy Miracle". Available online at: [click here for link to the website](#)
- On 17 October 2022, KIFFWA featured an article on the website, titled: "Water Crisis; Is the Private Sector the Ultimate Solution?". Available online at: [click here for link to the website](#)
- On 3 November 2022, KIFFWA featured an article on the website, titled: "Together for the Betterment of Water Resources". Available online at: [click here for link to the website](#)
- On 15 November 2022, KIFFWA featured an article on the website, titled: "Contribution of Hydro-power in the Strategic Shift to Clean Energy". Available online at: [click here for link to the website](#)
- On 5 December 2022, KIFFWA featured an article on the website, titled: "Purified Water Saving Smiles". Available online at: [click here for link to the website](#)

KIFFWA was also mentioned in third party publications:

- On 20 January 2022, ImpactAlpha – A digital media platform for journalism around social and environmental value.

Available online at: [click here for link to the website](#)

- On 22 June 2022, NWP published an article on blended finance mentioning KIFFWA as one of several successful blended finance solutions. Available online at:

[click here for link to the website](#)



3 Challenges and Risks

As is inherent to any start-up and to a complex operating environment like the water sector, KIFFWA continues to experience challenges. Below we highlight the top risks arising from our corporate risk assessment, including a short description of our mitigating response/actions.

3.1 Inflation risks

Inflation risk rose sharply in 2022 on the back of surging commodity prices, high public debt and persistent supply chain pressures. Tightening global monetary conditions is amplifying the shortage of dollar liquidity across Africa resulting in many businesses struggling to access hard currency to facilitate foreign transactions, such as the purchasing of imported goods and services.

3.2 Supply Risk

The Covid-19 pandemic exposed vulnerabilities in the global supply chain that, according to experts, could take as long as one to two years to recover. The supply chain troubles worsened by new and tighter lockdown measures in Shanghai and coupled with a marked increase in global shipping costs which led to shortages of critical goods and materials and a sharp rise in prices the world over as demand outstrips supply.

As a result of the inflation and supply risks we have reviewed the financial models of our projects accordingly. We have re-examined the financial feasibility and made adjustments in project design /business concept where necessary so that projects can still generate sufficient return on investment.

3.3 Political Risk

Historically, election cycles have driven increased market volatility which has seen households and enterprises adopt a precautionary behaviour with regards to investments. As such, more people deposit their money as either savings, time or demand deposits as they seek safer havens for their funds. This leads to increased deposits in the local banks and increased selloffs as both local and foreign investors offload their equities investments a short period before the elections. Similarly, the business environment is characterized by increased uncertainty leading to a wait and see approach by investors in the quoted equities market and foreign direct investments.

Nevertheless, in order to find investors for our projects, it is important to be in the picture with a large group of potential investors and to have a large network. For this reason we have intensified our marketing efforts and fundraising activities.

3.4 Funding Risk

Funding continues to be an existential threat for KIFFWA. Continued commitment by EKN to fund KIFFWA will come to an end in December 2023. KIFFWA is then expected to have attracted a strategic partner or new funding source to cover the budget gap. For that reason the search for strategic partners has been intensified.

Different scenarios have been drawn up and shared with EKN and discussions are underway on the most attractive option to sustain KIFFWA. More on funding and liquidity in chapter 5.

3.5 People and Performance Challenge

Team retention is a critical consideration and measures need to put in place to achieve long-term retention. There is potential for declining performance, low levels of collaboration and low morale as a result of longer term job security concerns, increased workload and pressure from more virtual working. The use of various longer-term incentives will be necessary as high turnover is very expensive and disruptive to the organization.

For this reason, the team is regularly informed about (and involved) in the progress we are making with regard to finding a strategic partner. In addition all employment contracts have been extended until the end of 2023 to

build and retain commitment and trust. And we scaled up from 1 day a week physically in the office to 3 days a week physically in the office, which benefits team spirit and cooperation. We also invested in a solid team event at the end of the year to reflect, learn, bond and look ahead.

3.6 Investment Challenge

The Covid-19 pandemic in 2020 and 2021 and the Elections in Kenya in 2022 have had a major inhibiting effect on the development of the projects and businesses in the KIFFWA pipeline. A good example is the delay in fieldwork by hired consultancy firms and reduced site visits, which delayed the completion of the necessary studies and reports. Another good example is the lack of progress in the energy sector reforms that impacted project milestones of our hydropower projects. Because the development phase of projects takes longer, it is more difficult to attract investors in time to realize Financial Closes. There is also the risk of investor fatigue if an investor is interested, but we cannot yet make a deal because the

development phase of a project has not yet been fully completed. For this reason we give potential investors more insight into the phase the projects are in, so that a better conversation between KIFFWA and a potential investor arises about when we will intensify the discussions. Besides that, it also creates more commitment from potential investors. In addition, potential investors can provide timely valuable input that increases the chance of a financial close at a later stage.

Based on previous experience, we also pay more explicit attention to when we approach the market and in what way. In addition, our network has become larger and our marketing activities have increased, which means that we also approach more and different parties compared to the past.



4 Funding and Liquidity

As mentioned, funding continues to be an existential threat for KIFFWA. Continued commitment by EKN to fund KIFFWA will come to an end in December 2023 and KIFFWA is not yet financially sustainable on a stand-alone basis. Further, a long term reliance on donor funding is also considered not sustainable. Mitigating its funding risk KIFFWA has greatly intensified the search for a strategic partner.

4.1 KIFFWA programme funding

KIFFWA programme funding can be categorised in three periods.

- KIFFWA was initially set up as a 4-year programme (2016 – 2019), funded by the Embassy of the Kingdom of the Netherlands in Kenya (EKN) and managed by the Netherlands Water Partnership (NWP);
- In 2019, this period was extended¹ by two years (2020 – 2021); and
- In 2021, EKN extended the KIFFWA programme with another two years (2022 – 2023). Together, with the extension, EKN approved additional funding of EUR 1.0 million for KIFFWA.

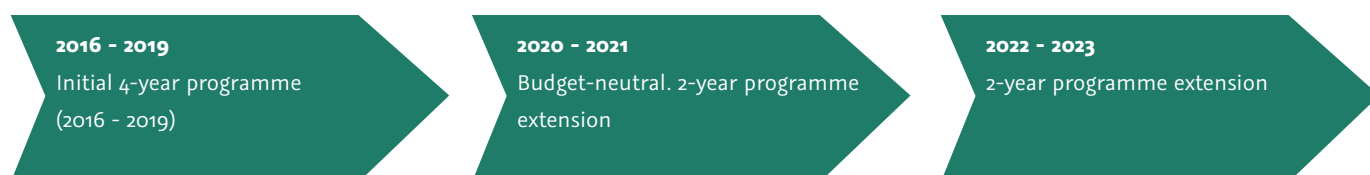


Figure 1 - Phases in KIFFWA Programme Management

4.2 Search for a strategic partner

As programme funding via EKN will end, a strategic partnership needs to be established before the end of 2023 and the years 2022 and 2023 are used to establish such a strategic partnership. The strategic partner is expected to have the financial capacity to support KIFFWA's sustainability beyond 2023. In December 2021, the KIFFWA Board approved a roadmap for the search of a strategic partner.

The search for a strategic partner gathered pace during the year 2022 following two strands.

1 An initiative to establish a locally driven partnership to accelerate water-lens investing to enhance climate resilience in the region:

The global climate change crisis is inextricably linked to water. Therefore both KIFFWA and Kenya Climate Ventures (KCV) are coincidentally transitioning to focus on water-climate nexus. They have both expressed a wish to attract strategic partners who bring a combination of money, local knowledge and interest in the water-climate nexus.

KCV was founded in 2016, with seed capital from Danida and UKAid. Early indications have been received from Danida to provide cornerstone funding to be match funded by EKN. A combined entity will assure scale and replication of successful business models.

2 An international search:

In the search discussions have progressed with institutions within the Private Infrastructure Development Group (PIDG) such as InfraCo and Cardano Development. The combination of these parties brings in proven project development capabilities, strong development finance networks and a vast funding base.

We envisage a possible co-development role for PIDG/InfraCo to;

- Jointly with KIFFWA, participate in a 50/50 steer group to coordinate origination, development and closing of water investments in the region;
- Where projects meet InfraCo's remit, participate in the development funding;
- Establish a mechanism whereby each party holds their own investment committee coordinated in such a way that if one party disapproves then the other can proceed with third parties
- Support potential expansion to multiple countries in the region

¹ Budget-neutral.

Links with Cardano Development already exists through DLM which has been providing back-office support to KIFFWA from the very beginning (2017). Based on the profile and track record of Cardano Development, they could:

- Assists in KIFFWA in future fundraising endeavors by identifying, securing and liaising with investors;
- Provides KIFFWA with mid and back-offices services, including impact reporting and KYC compliance;
- Take over the role of the Netherlands Water Partnership (NWP) in its programme oversight role vis-à-vis the Embassy of the Kingdom of the Netherlands EKN).

At its December 2022 meeting, the Board approved the management team to fast-track development of Phase 1 of the local partnership framework with an initial focus on joint fundraising and co-implementation while weighing possibilities of a unitary set-up. In addition, the board gave approval for hiring of a transaction advisor to help in vehicle creation and initiation. This will include development of a business plan simulating the design of the investment portfolio needed to achieve investors' expected returns.

4.3 Scenarios and sustainability

Following the intensified search for a strategic partner and the two strands mentioned above, we foresee three scenarios, which can intertwine as we progress:

- **Scenario A** – Strategic partner, portfolio merger, co-funding: Related to the local initiative and converting KIFFWA into a leading, scalable, sustainable, revolving water-climate impact fund with resource mobilization from multiple funding partners.
- **Scenario B** – Strategic partner, portfolio merger, no (direct) funding: Related to the international search, setting up a strategic partnership between KIFFWA and established parties with proven project development and fundraising capabilities.
- **Scenario C** – Wind down, dismantle portfolio and dissolve JDA contracts: If the search for a strategic partner is unsuccessful, we will work towards a gradual wind down of the KIFFWA organization (KIFFWA CLS and SKF) and the project portfolio, and limit loss of investments where possible.

KIFFWA has been granted the opportunity to be compensated by IGG/EKN for the write off of its investment in KPWF (also see 2.1.2 Exit of projects and project in review stage) via meeting a set of criteria. These criteria will be drafted by EKN, together with IGG, and will revolve around sustainability of KIFFWA's core activities.

EKN and KIFFWA will have a Go/No-Go meeting, yet to be planned halfway 2023. The progress and outlook of each of the mentioned scenarios will be reviewed. And during this meeting it will be determined whether the set criteria have been met and whether KIFFWA is eligible for full compensation will be determined. From there we will decide on the way forward.

