

Evaluation Summary

SUNREF Program in Kenya – 2010-2017

Country: **Kenya**

Sector: **Productive & financial sector**

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Key data on AFD's support

Projet number: Phase 1: CKE 1032, CZZ1633 – Phase 2: CKE1095/1112, CZZ1892

Amount: Phase 1: €30M loan and €2.6M grant – Phase 2: €60M loan and €2.1M grant

Disbursement rate: Phase 1: 100% - Phase 2: 40% of the loan and 70% of the grant

Signature of financing agreement: Phase 1: 2010 (credit loan) and 2013 (TA) - Phase 2: 2014.

Completion date: Phase 1: 2014 - Phase 2: ongoing

Total duration: Phase 1: 4 years - Phase 2: 3,5 years, ongoing

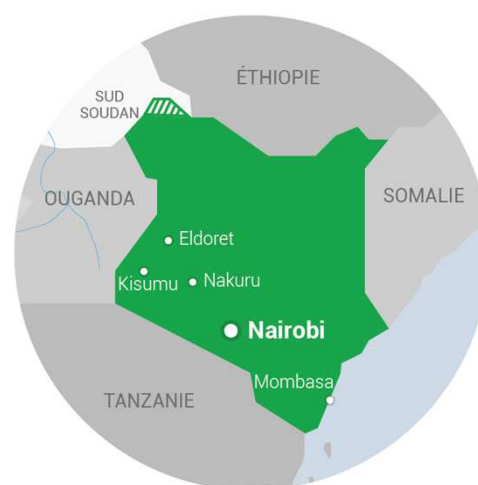
Context

The Kenyan energy sector has been characterized by a **proactive and ambitious governmental policy**. It is conducive for small and medium-sized renewable energy (RE) and energy efficiency (EE) investments, but does nevertheless present some challenges.

The banking sector in the country is generally healthy but has recently seen, in the wake of a politically difficult time in 2017, a **slight deterioration leading to an increase in risk aversion**.

Actors and operating method

The loan was shaped as a credit line to 4 local private banks. The **technical assistance** was hosted and managed by the Kenyan Association of Manufacturers (a private sector organization).



Objectives

- To contribute to the **low carbon growth trajectory** of Kenya, to promote RE and EE in the industry and to enhance **competitiveness** in the enterprises.
- To create conditions conducive for the funding of (small scale, additional) RE and EE projects.

Expected outputs

- To develop a culture of economization of energy in the enterprises and encourage the usage of RE sources.
- To build and strengthen the capacities in terms of green energy of the enterprises and of the local actors in general.
- To develop EE and RE expertise within the banks and to help them to mobilize resources for green energy projects.

Performance assessment

Relevance

Renewable energy investments of medium and small size have not been the main focus of the government while a demand for such installations existed and still exists. Hence, the support to such investments is a relevant measure in the Kenyan context. Even more so, the SUNREF program has been and is highly complementary to and consistent with AFD's significant presence in the energy sector. SUNREF has also been a relevant support as the sector was and remains to some extent underfunded by banks.

The logical framework is generally meaningful, but could be strengthened as it is not always clear what the main goal of the SUNREF program was.

Effectiveness

The program managed to finance a certain number of projects via the partner banks and as such has been effective. The program likely managed to finance projects that otherwise - in the absence of SUNREF - would not have been financed, i.e. additional projects. The projects financed under the program seem to be of good quality and until the time of the evaluation no loan impairments occurred from final beneficiaries. Some of the projects can be regarded as highly innovative in the Kenyan context.

The technical assistance (TA) has been a key component of the program. Its support was necessary to structure the demand-side (in particular by strengthening technical proposals of the projects) and also to structure the supply-side by trying to reassure and convince banks to explore this new market and take new risks. The portfolio of projects identified by the TA during the two phases was substantial.

The effectiveness of the program is limited by the fact that the interest of the banks in trying to push the credit line has not been as high as it could have been. One of the reasons for the volume remaining below expectations seems to be the interest-margin that banks can earn on the SUNREF loans, while the perception of the risk of SUNREF projects remains high. Only 10% of the projects identified during the two phases were able to get past the identification stage (i.e. 19 projects out of 208).

The program has been able to create - so far - a limited close working relationship and confidence between the TA and the partner banks. However, gradually the TA puts an emphasis on prioritizing the identification of projects that best meet the needs of banks.

Efficiency

The analysis of the leverage effect between the cost of the TA and the total amount of investments of the 19 loans allocated so far stands at over 15. Nevertheless, the relatively small portion of projects implemented by partner banks compared to the long list of projects identified, gives reason to believe that an improved prioritization matching the preferences of the banks would improve efficiency.

The efficiency could also be increased by focusing less on the identification of new projects but instead putting a stronger focus on other activities that lie within the ambitious mandate of the TA.

Impact

The impact on the banks' business model is below expectations, due to the somewhat limited interest by the banks to utilize the credit line. The project also remains in the hands of some key personnel at the banks and so far no bank has undertaken structural changes due to the program. Whether the banks address RE or EE much more than before could - for a lack of data - not be verified by this evaluation.

The program has had a positive impact on the sponsors of projects who have profited from a certain level of technology transfer that has been provided by the TA.

Within the program 102,500 T/eq of CO₂ emissions per year are avoided due to the projects from phase 1 and 2 (these figures result from ex-ante estimations).

Sustainability

A third phase of the program is currently in preparation by Proparco which goes to show that the impacts of the projects so far are sustainable.

The program has proved to be an interesting laboratory that brought to light some shortcomings and needs in the regulatory framework for investment in clean energy and that offer the opportunity to test the introduction of procedures or regulations. Therefore, it has made practical and useful contribution to public policies that sustain investment in clean energy, however modest these may be.

Generally the programs objectives remain relevant and the target market of the program should be interesting in the Kenyan context in the years to come. Hence, if the program manages to incite the banks to push more strongly for green investments and subsume them under the credit line, there is no reason to believe that the program cannot unfold a similar or even increasing impact in the future.

Added value of AFD's contribution

The program has allowed AFD to differentiate itself from the other donors' interventions in Kenya with a relatively innovative approach (combining a credit line with extensive and institutionalized TA). The fact that the program aroused the interest of some donors such as EU, DANIDA and DFID goes to prove that point.

Conclusions and lessons learnt

The program had a **positive impact by promoting renewable energies and energy efficiency measures** in the country. It managed to **finance green projects**. It merits **another phase**, in particular as market barriers in Kenya remain. The impact of a 3rd phase would be strong, in particular when trying to get the banks interested in promoting and using the credit line and developing a green finance strategy.

The monitoring and the measurement of outcomes and impacts of the program have been precisely designed but their **implementation has to be improved**, despite increasing efforts. The evaluation noticed, in particular, the **absence of a systematic monitoring in the implementation of the projects** allocated by the partner banks and the necessity to **encourage banks to improve the frequency and the quality of their reporting**.

The evaluation also recommends the **strengthening of the capitalization efforts**, for learning purposes, beyond those focused on communication objectives, but acknowledges the program-wide efforts that have already been made.