



Institute For Economic Justice POLICY BRIEF



FINANCING KENYA'S RENEWABLE ENERGY MANUFACTURING AMBITION: UNLOCKING PATIENT CAPITAL FOR LOCAL SMEs

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Executive summary

Kenya has made substantial progress in its renewable energy transition. Renewable sources supplied approximately 81.3% of electricity to the national grid in 2025, while the decentralised renewable energy sector supported an estimated 48,280 direct jobs in 2021. The transition has created domestic business and employment opportunities in project development, civil works, distribution, sales, installation, maintenance, repair, and basic assembly. These are important early gains in localisation that expand Kenyan participation in renewable energy supply chains and build technical and entrepreneurial capability.

However, this market growth has not yet translated into substantial domestic manufacturing of high-value components. Most Kenyan renewable energy SMEs remain concentrated in downstream services and basic assembly, while advanced components and technologies continue to be manufactured abroad. The financing that could enable domestic manufacturing is characterised by high interest rates, short repayment periods, and collateral requirements.

This brief therefore recommends establishing a dedicated patient-finance scheme to catalyse domestic manufacturing in the renewable energy sector:

- Establish a dedicated patient-finance facility for renewable energy SMEs, combining concessional long-term loans, grace periods, credit guarantees, equipment finance, and targeted grants for product development and certification (design within 12 months; first pilot financing within 18 months).
- Provide financing instruments tailored to different SME needs, working with commercial banks and development finance institutions to adapt existing products. These should have lower interest rates, longer repayment periods, less demanding collateral, and small grants for product development, testing, and certification.
- Link finance to standards, skills, and market opportunities, by coordinating production support,

testing, and certification, and skills training alongside financing.

- Ensure equitable access and strengthen accountability, through simplified application processes, regional outreach, and proposal support for SMEs, women-led enterprises, and firms outside Central Kenya, backed by disaggregated annual reporting.

Appropriately structuring the facility is critical to its success: a phased pilot, simplified application processes, regional outreach, milestone-based disbursement, and transparent reporting would limit risks while strengthening local supply chains, skilled employment, industrial learning, and inclusive participation in Kenya's energy transition. Kenya is already investing heavily in the renewable energy transition; the policy question is whether that investment will also build Kenyan productive capacity.

1. Introduction

The financing gap facing Kenyan renewable energy manufacturers reflects a wider structural mismatch documented across African renewable energy markets. A 2025 review of renewable energy finance in Africa finds that the continent's energy demand and renewable energy potential are set to grow faster than anywhere else in the world up to 2050. Yet conventional finance continues to under-value this opportunity because it is structured around short investment horizons and collateral requirements poorly suited to capital-intensive, long-payback industrial investment. The review argues that closing

this gap requires deliberately ‘patient’ capital instruments — concessional finance, guarantees and blended structures — rather than simply expanding the volume of commercial credit available.¹

This matches the pattern found in Kenya: renewable energy deployment is accelerating, but the financial system supporting it has not been redesigned to support manufacturing rather than trade, installation, and maintenance.

Kenya’s renewable energy market is growing, but local firms have not captured enough of the value it creates. Most Kenyan renewable energy enterprises remain concentrated in distribution, sales, installation, basic assembly, repair, and maintenance. Higher-value component manufacture is largely undertaken abroad, in countries such as China and Germany.

Kenyan manufacturing relies heavily on self-financing and commercial-bank debt, yet high interest rates, short loan tenures, and collateral-based lending make finance inaccessible or unsuitable for many firms because manufacturing requires longer-duration capital and working-capital cycles that can extend for months. Our research across Central, Coastal and Western Kenya found that firms rely mainly on conventional commercial finance, but that high interest rates, short repayment periods, and collateral requirements make it difficult for smaller local firms to invest and grow.² Manufacturing and component assembly require substantial upfront investment and may take several years to generate reliable returns. Green-technology research and equipment upgrading require substantial expenditure over extended periods, and short-term financing pressures can cause firms to curtail or abandon investments before their benefits materialise.³

Commercial lenders often assess renewable energy firms as risky because they are small, lack sufficient collateral, depend on imported inputs, and operate without predictable procurement orders; larger and foreign-owned firms are therefore better placed to secure capital, comply with standards, and compete for contracts, while local SMEs remain in lower-value activities.

Kenya already has legal and policy instruments supporting local participation but these measures do not yet amount to a coordinated financing pathway for renewable energy SMEs. The Public Procurement and Asset Disposal Act provides for preferential procurement of goods manufactured, mined, or produced in Kenya.⁴ The National Industrialisation Policy Framework proposes targets for locally produced industrial components and local content in manufactured exports, alongside an Industrial Development Fund for long-term financing.⁵ The Micro and Small Enterprises Act mandates support for technological modernisation, business-development services, market linkages, and technology transfer.⁶ However, there is no sufficiently targeted capital source that combines affordable long-term finance with equipment funding, working capital, credit guarantees, certification and testing support, and access to reliable markets.

If this financing gap persists, Kenya may continue expanding renewable energy while importing most of the equipment and technology required. Local firms will remain trapped in low-margin activities, and public spending on the transition will create more value abroad than domestically. The policy challenge is therefore not simply to expand the pool of available capital or improve access to it, but to redesign the capital available to local SMEs, and to provide patient, appropriately structured finance that allows capable local firms to invest, learn, and move into progressively higher-value activities.

The remainder of this policy brief is structured in three sections. Section 2 presents the evidence on firm capability, financing barriers, and comparative experience. Section 3 examines the financing pathways available for domestic manufacturing. Section 4 sets out recommendations for a dedicated patient-finance facility.

2. Financing constraints and unequal capital access in renewable energy manufacturing

Renewable energy is growing, but local manufacturing remains limited. Most local firms remain concentrated in lower-value activities; manufacture of solar cells, inverters, wind-turbine components and other advanced technologies remains largely outside Kenya. Local ownership has therefore not automatically resulted in greater domestic manufacture or stronger local value capture.^{7 8 9}

Conventional finance does not meet the needs of renewable energy manufacturing. Renewable energy SMEs rely heavily on commercial banks, but high interest rates, short repayment periods, and collateral requirements make this finance difficult to access and unsuitable for manufacturing. Firms need longer-term funding for machinery, product development, testing, certification, and skilled personnel; these are investments that may take several years to generate reliable returns.

Patient capital can address this mismatch by offering longer repayment periods, grace periods, and financing terms aligned with firms' production and revenue cycles. Its direct financial benefits include lower refinancing pressure and greater capacity for capital-intensive investment. Indirectly, this can enable firms to invest in technical capabilities, product quality, certification readiness, workforce development, and the requirements for entering larger markets.

Potential sources of patient capital include pension funds, development finance institutions, climate funds, commercial banks, and other institutional investors. Public and development-finance resources are able to reduce investor risk through partial credit guarantees, junior capital, portfolio diversification, and technical assistance.

Experience from other countries shows that government-backed guarantees can encourage greater private investment: in 2025 alone, the European Investment Bank extended €500 million counter-guarantees to several major European banks. This was expected to unlock up to €8 billion in wind-energy manufacturing investment by enabling those banks to build much larger portfolios of commercial guarantees.¹⁰ Without financing designed around this longer investment period, local firms remain confined

to distribution, installation, and basic assembly.¹¹

Local firms want to expand but cannot finance upgrading alone. Renewable energy SMEs' efforts are constrained by limited capital, high production costs, dependence on imported inputs, weak research capacity and difficulties meeting certification requirements. Firm-level initiatives alone cannot overcome these structural barriers. Local firms therefore require affordable long-term finance that enables them to invest in manufacturing and expand production, including by meeting the costs of technical and research support, standards and certification, and the investments needed to access reliable markets.¹²

Access to finance is unequal across firms, regions, and ownership groups. Larger firms and foreign-owned companies are generally better placed to obtain finance, access technology, meet standards, and therefore compete for major contracts. Smaller, locally owned firms face thinner margins and greater exposure to import costs, currency fluctuations, and irregular cash flow. Access also differs geographically: firms in Central Kenya benefit from greater proximity to the capital city Nairobi, and thus to financial institutions, markets, and national agencies, while Coastal Kenya reported the greatest exclusion from financial assistance. A general financing programme that does not account for firm size, location, and ownership could therefore reinforce existing inequalities.^{13 14}

Finance must be connected to markets, standards, and industrial support. Evidence from Kenya and comparable countries suggests that finance is most effective when it forms part of a wider industrial support package. Kenya already has local-content ambitions and institutions mandated to support enterprise development, but implementation remains poor. South Africa's Atlantis Special Economic Zone and Morocco's Noor Ouarzazate programme demonstrate the value of combining investment finance with industrial infrastructure, procurement, skills development, and coordinated government support. For Kenya, patient finance should initially support the manufacture of products and components that can feasibly be produced locally, rather than attempting immediate manufacture of highly specialised components.^{15 16}

3. Financing pathways for domestic manufacturing

The policy choice is not whether government should subsidise renewable energy manufacturing, but how public support can be designed to crowd in private investment while limiting fiscal and credit risk. Maintaining the current approach would leave renewable energy SMEs dependent on commercial loans, internal savings, and occasional donor support. This would require little additional public spending, but would leave high interest rates, collateral requirements, and short repayment periods to continue preventing many firms from investing in manufacturing.

Studies recommend long-maturity financial products and reduced collateral requirements for SMEs.^{17 18} A general concessional credit line could lower borrowing costs through existing financial institutions, but credit alone would not resolve equipment, certification, technology, and market-access barriers, or ensure access for smaller and women-led firms. A grant programme could fund early product development, testing, and certification without increasing debt, but limited and uncertain budgets make grants unsuitable for large equipment purchases and recurring working-capital needs.

Policy option	Key features	Advantages	Disadvantages	Feasibility
Maintain the current approach	Continue relying on commercial banks, firm savings, and existing donor programmes.	No significant new administrative or public financing requirements.	High interest rates, collateral requirements, and insufficient support would continue; few SMEs would progress into manufacturing.	High
General concessional credit line	Provide lower-interest loans through existing banks or development finance institutions.	Relatively quick to introduce; lowers borrowing costs and can reach established firms.	May retain restrictive collateral requirements; does not address certification, technology, or market-access barriers.	Moderate to high
Grant-based upgrading programme	Provide competitive grants for innovation, product development, testing, and certification.	Reduces financial risk for SMEs; useful for women-led and early-stage firms.	Limited coverage; dependence on government or donor budgets; unsuitable for financing large equipment and recurring working-capital needs.	Moderate

Policy option	Key features	Advantages	Disadvantages	Feasibility
Recommended option: patient-finance and enterprise-upgrading facility	Combine concessional loans, grace periods, credit guarantees, equipment finance, targeted grants, technical assistance, and procurement linkages.	Addresses several barriers together: supports smaller firms, shares risk, and links finance to actual industrial upgrading.	Requires initial capital, coordination among several institutions, and strong monitoring to prevent capture by larger firms.	Moderate to high

The preferred option is a dedicated patient-finance and firm-upgrading facility combining concessional loans, grace periods, partial credit guarantees, equipment finance, and targeted grants. Linked technical assistance, skills support, procurement, and measurable production plans would help firms to start manufacturing components that can feasibly be produced locally.

4. Towards change in policy and practice

4.1 Establish a dedicated patient-finance facility for renewable energy SMEs. The National Treasury, the Ministry of Investments, Trade and Industry, and the Ministry of Energy and Petroleum should design a dedicated scheme. The facility should offer long repayment and grace periods and initially support components that can be easily manufactured in Kenya, such as solar mounting structures, metal frames, electrical enclosures, cables, and batteries.

4.2 Provide financing instruments tailored to different SME needs. The Ministry of Investments, Trade and Industry should work with commercial banks, development finance institutions, and other participating financiers to adapt existing products to renewable energy SMEs. These products should share financial risk and provide lower-cost funding for

firms to access suitable loans. These should have lower interest rates and longer repayment periods, less demanding collateral requirements, and repayment schedules suited to their production cycles. They should be accompanied by small grants for product development, testing, and certification. Participating institutions could begin offering tailored products within 18 months.

4.3 Link finance to standards, skills, and market opportunities. Each financed SME should receive a support package matched to its needs: the Kenya Industrial Research and Development Institute (KIRDI) should provide production support; the Kenya Bureau of Standards (KEBS) should assist with testing and certification; and the National Industrial Training Authority (NITA) and Technical and Vocational Education and Training (TVET) institutions should provide relevant skills training. Public agencies should connect participating firms to procurement and supply opportunities. These services should be coordinated through the financing scheme, with part of the funding reserved for training, certification, and product improvement.

4.4 Ensure equitable access and strengthen accountability. County governments and participating lenders should provide

simplified application processes, regional outreach, and proposal support for SMEs, women-led enterprises, and businesses outside Central Kenya. These should be backed by annual data on applications, approvals, financing, repayments, and supported activities, disaggregated by firm size, ownership, gender, and location. The reporting should track local production, movement into higher-value activities, skilled jobs, and labour and safety compliance. Disaggregated reporting will help identify which groups, regions, and types of firms remain underserved, enabling more targeted support and allowing government to assess whether access to finance is equitable.

Establishing a patient-finance facility requires capital for lending and credit guarantees, grants for testing, certification, and technical assistance, and resources for county outreach, administration, and monitoring. These costs should be weighed against the cost of continued import dependence and lost opportunities for domestic production, training, skilled employment, and firm growth. Simplified access, regional outreach, and targeted technical support would improve access for smaller firms, while linking finance to labour and safety standards would encourage secure, skilled employment.

Endnotes

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