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Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH



Project Brief – Pico PV RBF

Results Based Finance Facilities (RBF) for “Building sustainable and affordable credit lines for small solar systems in rural areas.”

1. Background

Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ) has been implementing a DFID funded Result Based Financing (RBF) project that provides financial incentives to private sector organisations involved in provision and scaling up innovative flexible payment solutions/mechanisms for small solar home systems (pay-as-you-go, loans, instalment payment e.t.c).

The title of this RBF initiative is “**Building Sustainable and Affordable Credit Lines for Small Solar Systems in Rural Areas**”. This initiative is hosted by EnDev Kenya (EnDev-K), a programme implemented by GIZ and SNV. For more information on EnDev visit <http://endev.info>

This project was commissioned in 2014 and will be closing by June 2019. It has been receiving applications on rolling basis from interested companies and organisations and the latest application window ended in 30 June 2018. However, the application window will be extended to **31 October 2018**. The project is therefore accepting applications from interested companies or organisations until the extended deadline.

2. Overview of the project

The RBF initiative targets to provide incentives to financing institutions (commercial banks and micro finance institutions), SACCOs and solar distributors (herein referred as “RBF beneficiaries”) operating in rural areas in order to encourage them provide and/or scale-up flexible and affordable financing schemes for small solar systems (also known as PicoPV systems or Pico Solar home systems). The financing schemes are expected to target last mile entrepreneurs (LMEs) and end users. The RBF beneficiaries can be individual companies or a consortium of financing institutions with distributor(s)/manufacturer(s) of solar products.

The incentives will be in form of **premiums** which will be disbursed to RBF beneficiaries as an ex-post payment upon delivery and external verification of **agreed upon results**. The agreed upon results in this case is the **number of solar products (that meet EnDev Kenya criteria) sold to LMEs or end users on credit or flexible payment methods (e.g. Pay-As-You-Go or hire purchase)**. The value of the incentives is expected to be a **fraction of the value of products sold to LMEs and/or end users**.

The RBF incentives can be used by the beneficiaries towards either an **internal partial risk cover facility** or **working capital** investment. This could also be a combination of these two options. The RBF incentives may be used for partial risk cover or other relevant activities such as loan development, marketing and awareness, training, improving the distribution channels, scaling up existing relevant solar activities etc



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It will be at the discretion of each Applicant to propose how to best allocate the incentives in order to introduce and or increase the number of affordable and appropriately structured small solar system loans for the target markets.

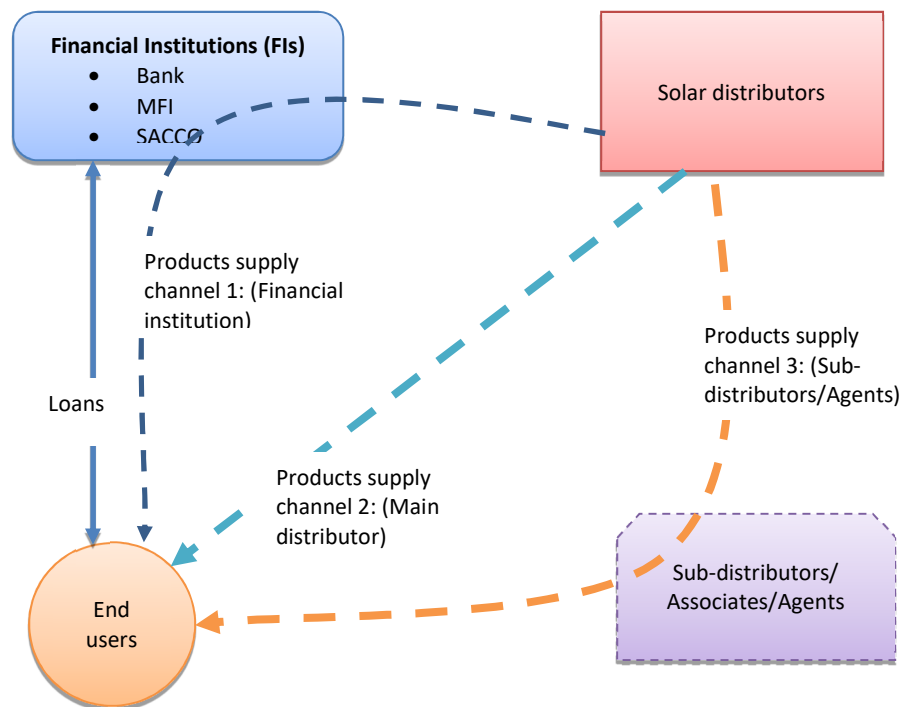
1. Types of RBF incentives

a) Incentives targeting end users credit facilities

The RBF mechanism will be used to encourage RBF beneficiaries (financing institutions and solar distributors) to develop or scale up flexible financing schemes for end users through affordable and flexible credit/payment facilities. It targets both financing institutions and distributors of solar products.

This type of incentive can be achieved in two scenarios, namely:

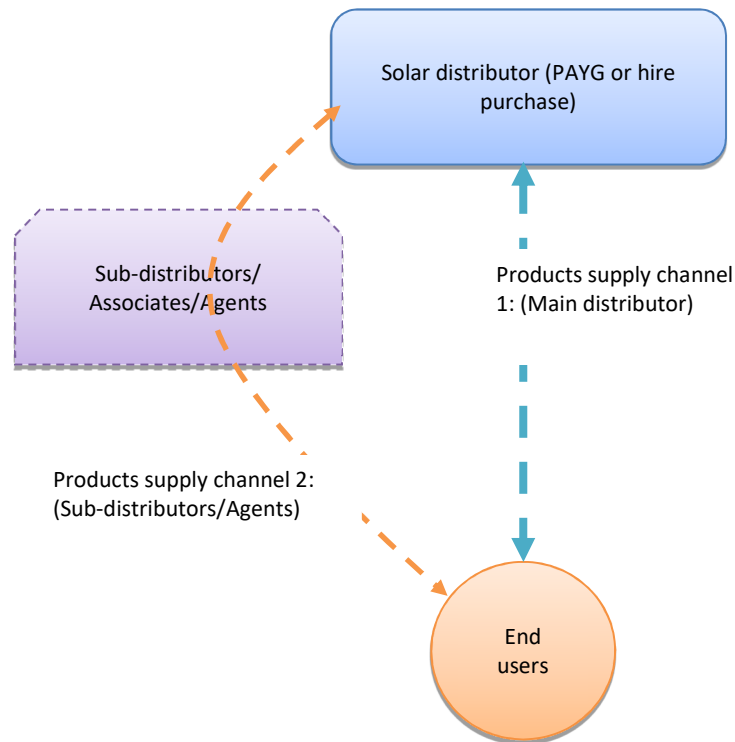
- **Credit/payment schemes for end users through financial institutions (banks/MFIs/SACCOs):** the incentives will be provided based on the verified number of products that are supplied to end users on credit or through loans from financial institutions participating in the RBF project. Under this scenario, the solar products reaches the end user through different channels and the common examples are shown below:



- **Credit/payment scheme for end users through distributors of solar products:** the incentives will be paid out on the basis of the number of solar products supplied to the end users on a pay-as-you go (PAYG)/hire purchase basis directly from solar distributors or through their agents or associates.



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b) Incentives targeting LMEs credit facilities

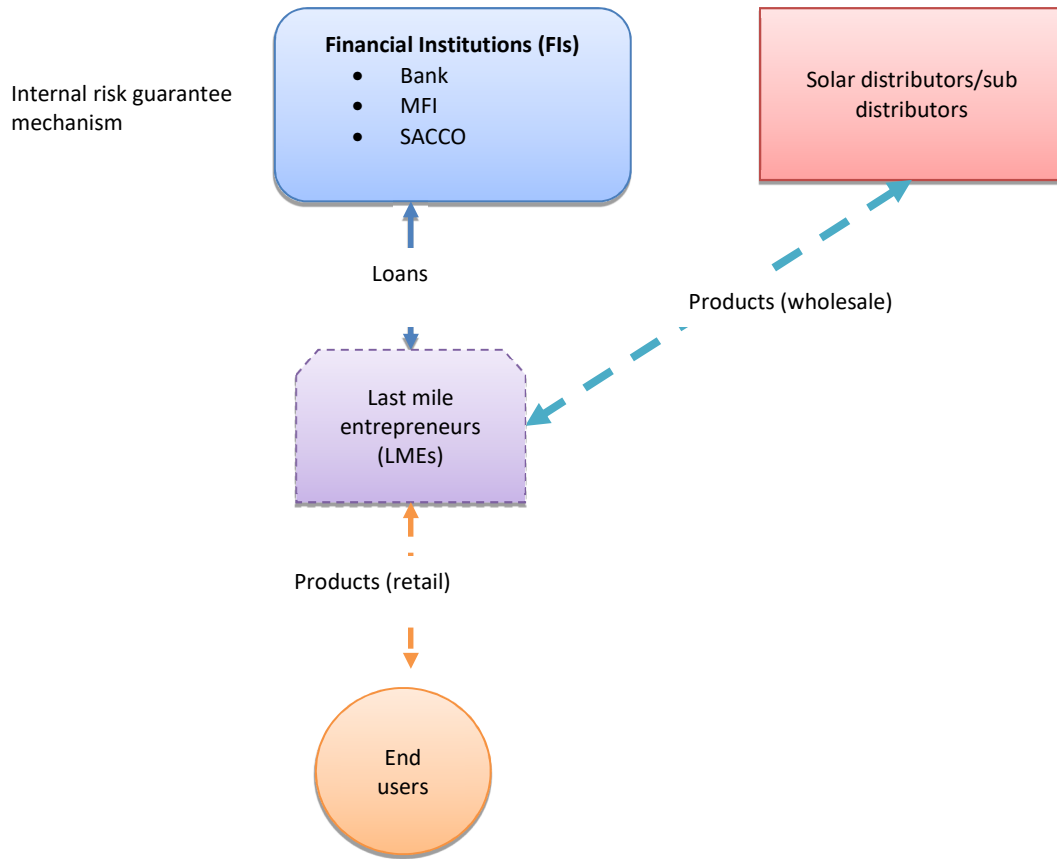
The RBF mechanism will be used to encourage financing institutions to partner with distributors of solar products in order to provide affordable credit and collateral requirements to last mile entrepreneurs (LMEs) venturing in solar entrepreneurship in rural areas. This will enable the LMEs (existing and startup) to have sufficient working capital for adequate stocks and marketing activities, therefore improving sales performance to a level which can be sustained without RBF at project exit. Participating LMEs must demonstrate sales (stock turnover) to trigger the RBF payout. The incentives relating to LMEs can only be claimed once the RBF beneficiaries confirm that the specific products through the LME channel have reached the end users.

The incentives targeting LMEs credit facilities also have two scenarios, namely:

- **Financial institutions driven LME credit facilities** – This scenario involves the financial institutions improving lending conditions (e.g. reducing interest rates or availing attractive collateral requirements) in order to attract LMEs to access financing for their solar enterprises. This may also be achieved through enhancing existing risk management processes and developing internal risk guarantee mechanisms to mitigate any financing risks regarding small scale solar entrepreneurs.



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- **Solar distributor driven LME credit facilities** – This scenario involves solar distributors and/or sub distributors partnering with financial institutions in order to facilitate access to finance for last mile entrepreneurs. The solar distributors/sub-distributors will develop loan guarantee mechanisms for their LMEs whom they have a good business relationship and are in need of credit financing to start or grow their enterprises. The solar distributors/sub-distributors would therefore pre-select LMEs who are in need of credit financing for stocking solar products, recommend them to the financial institutions and guarantee the loans issued to them.



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