

# Higher Tier Stoves Results Based Financing Project Implemented by SNV Kenya Information Sheet

## 1. Background information

**SNV Netherlands Development Organisation** operates in 36 developing countries including Kenya aiming to contribute to poverty reduction and good governance by building the capacity of public and private sector organisations and systems, to spur social and economic development and inclusive business and service delivery models. SNV delivers its services through teams with relevant expertise and through local capacity building organisations to build sustainable local capacity developers. SNV works to address issues in agriculture and livestock, water and sanitation and renewable energy. SNV provides capacity development services to partners, comprising local and national governments, NGOs and private businesses, and substantially influenced access to better quality basic services and higher production, income and employment for the poor.

### 1.1. SNV's Work in Renewable Energy Sector

In keeping with the Millennium Development Goals, Kenya is committed to reducing by half the number of people who lack access to modern energy services by 2015 and reducing by half the number of people living in poverty. Access to affordable energy is an essential prerequisite to achieving economic growth and poverty reduction in Kenya. The majority of people who rely on biomass for thermal energy and who lack access to electricity are in rural areas and the specific people who cook with biomass or charcoal are almost universally women. The lack of access to affordable energy services -- "energy poverty" --disproportionately affects women and girls due to their traditional roles, household responsibilities and low socio-political status.

SNV is a facilitator to enhance commercially viable markets for Renewable Energy products and services for households and supports SMEs in underserved areas with focus on lighting and cooking needs for households and productive use mainly from biogas, biomass and solar.

## 2. The 'Higher Tier' Cook Stove RBF Project

Recently, SNV was awarded a Results Based Financing (RBF) project for higher tier stoves financed through the Energizing Development (EnDev). The project is focused on the application of a temporary financial product to incentivize MFIs and SACCOs to provide loans for these stoves. The target is to provide 100,000 stove loans within the 4 years project period.

Cookstoves qualifying to participate in the RBF proposed herein are "higher tiers stoves", with the following minimum characteristics, based on a test protocol developed and in use by the Kenya Institute of Research and Development (KIRDI) or already been tested by APPROVECHO and Berkeley Lab in the USA.<sup>1</sup>

#### **Minimum parameters for RBF higher tier stoves:**

Efficiency reduction >55%  
Indoor emissions CO (g/min) ≤ 0.62  
Indoor emissions PM (mg/min) ≤ 17  
Safety ≥ 75 points  
Thermal efficiency (%) ≥ 25

<sup>1</sup> Currently there are no definitive standards for what constitutes a true "clean cookstove." (GACC) The Alliance has been working towards developing globally recognized and accepted standards. In 2011, the Partnership for Clean Indoor Air (PCIA) resolved at a workshop (The Lima Consensus) to adopt a temporary rating system using "Tiers" which reflect the desired cookstoves evolution. This led to the ISO International Workshop Agreement on Clean and Efficient Cookstoves (February 2012), a preliminary step towards a formal ISO standard. The Agreement uses "Tiers of Performance" (1 to 4) to categorize stove performance levels for efficiency, safety, and emissions.

We are therefore looking for an experienced, innovative, committed, and enthusiastic Financial Institution (FI)/Bank to provide consistent and quality services in hosting a € 1.5 Million RBF Fund during the 4 years of the project.

The Financial Institution (FI)/Financial Management Agent (FMA) roles will be to manage and operate the day to day RBF financial and programmatic aspects which will include hosting the fund, disbursement, monitoring, validation of results and reporting. The FMA/FI will jointly work with SNV Kenya in implementing the RBF project.

### **3. Implementation strategy and partnerships**

The project will be implemented in two phases:

**Phase I**, taking four months, will be the inception phase. In this phase, SNV, in collaboration with EnDev/GIZ representatives, will convene and advertise for the Finance Institution (FI) and to review and select one of the Financial Institutions interested to act as host and manage the RBF fund. Main points for consideration in the FI selection process will include, but not be limited to, i) track record of the FI in maintaining donor based financing accounts, ii) present financial standing, network/accessibility, and value for money in RBF operation, iii) capability to provide RBF services, and iv) commitment as post-RBF market player.

Upon final selection of the FI, SNV, in agreement with EnDev, will establish the final contracting terms with the FI in the opening of a single escrow account for the RBF. After the establishment of the RBF account, the following activities will be undertaken in phase II.

#### **Phase II**

##### ***Step 1. MFI and SACCO application to the RBF Fund***

- SNV will establish a selection committee with representative of the FI, members of the Kenya Cook Stove Alliance (KCCA), KIRDI, Ministry of Energy, GiZ among others
- The selection committee's role will be to assess and review the applications of MFIs and SACCOs in a transparent and competitive process of shortlisting and onsite due diligence.

##### ***Step 2. MFI and SACCO Admission to the RBF Fund***

- Upon successful application to the RBF fund, with indications of how the incentive will be required to open a dedicated RBF account with the hosting FI. Each MFI /SACCO admitted to the fund will be engaged in a pre-RBF planning and post-RBF review session

##### ***Step 3. RBF Fund Transactions***

- Based on the market projections and the MFI/SACCO targets, an annual capital release will be deposited into the RBF fund account of the FI by ENDEV/SNV
- The MFI and SACCO will apply to the RBF fund on a quarterly basis for a release of funds as based on documented and verified transactions with last mile entrepreneurs and end user sales (paper trail & onsite inspection).
- Quarterly RBF statements for MFI and SACCOs will be furnished detailing incentives applied for, incentives released and incentive balance owed alongside the performance relative to the RBF annual cap and base values.

##### ***Step 4. RBF Verification***

- The verification processes will be consistent throughout the operation of the RBF fund with all participants subject to review. Should performance at any time be deemed as non-compliant with RBF rules and regulations, the specific actor and/or fund can be closed at any point upon the final discretion of ENDEV. Main points of verification will include, but are not limited to:

*Annual financial auditing of the hosting FI:* The FI hosting the fund will provide a monthly RBF account statement, quarterly fund summaries, and be subject to providing a fully audited annual report of the account prepared by a qualified audit company for review by EnDev and SNV.

*Transaction Records of MFI and SACCO:* MFI and SACCOs applying to participate will be required to provide a full set of necessary statutory, business and financial

documentation as part of due diligence for the opening of the RBF account and subsequent business transaction and financial performance summary statements that are supported by hard copies of retailer transactions.

*MFI and SACCO certification:* Each RBF MFI and SACCO will be subject to an onsite physical inspection & RBF Fund performance debriefing that is coordinated by SNV and conducted by contracted LCBs and/or third party consultants. The onsite inspections will occur at a year minimum of every six months and will include the MFI and s randomly selected retailers and end consumers.

#### **Step 5. Reporting and Evaluation**

- Pre-contracting (July-October 2014) baseline for the RBF fund will be confirmed and final targets established relative to the intervention outcome indicators.
- Use of technology will be explored in data capture. A range of data will be collected from each customer to ensure tracking of the stoves for monitoring purposes. The last mile entrepreneurs (LME) will be trained to ensure that data about the sales of stoves and the households reached will be correctly documented in their administration systems. As part of training of the LMEs, a simple system will be developed that captures customers records with automated reporting built in. The results of these analyses will be computed and presented in the project progress reports as well as used by the independent verifier. Support to ICS dealers and manufacturers will be tracked along the same methods.
- Bi-Annual summary reporting detailing transactions balance of the RBF fund, a reconciliation of statements-audits from the Financial Institution, and MFI and SACCO due diligence reports.
- Mid-term and concluding evaluations via an independent EnDev consultant to undertake a full due diligence and field inspection of all parties engaged in the program.

### **3.1. Main Project Actors**

The main means for achieving the results for this RBF project relies on strong local actors who are implementing other components and stand to maximize the benefits of the RBF.

SNV's core business is about connecting actor capacity development efforts and through its team of qualified advisors and pool of local capacity builders, SNV is well positioned to facilitate this critical dimensions. SNV will facilitate successful involvement and effective collaboration and interaction between key stakeholders, which can generate common vision, agreed strategies, and interventions to make the market development of higher tier stoves a success.

Implementing partners, manufacturers of higher tier stoves, MFIs, SACCOs, the Ministry of Energy and coordinating key players to have been consulted. Letters of support provided in (Annex 14.3).

### **4. Institutional structure**

This RBF project will be anchored in the ongoing EnDev-K activities, following are the roles for main actors in the project.

- SNV Kenya will be responsible for overall coordination, management and oversight of this RBF intervention in Kenya and reporting overall progress to EnDev HQ/DFID.
- An external verifier will audit and verify the activities, performance and results of the fund manager and the beneficiaries.
- A financial institution will act as custodian of the fund. And if possible act as fund manager (FM) responsible for RBF fund management, monitoring and reporting
- Direct beneficiaries are divided in three categories i.e. Rural FIs (i.e. commercial banks and MFIs), distributors and SACCOs.
- There will be a special facility for pellet manufacturers as direct beneficiaries.
- Indirect beneficiaries are end users and retailers/last mile entrepreneurs

#### 4.1. Overall structure

The diagram below summarizes the implementation structure for RBF interventions.

