

Access to Consumer Finance for Productive Use of Solar Energy

Cooperation with companies/organisations in promoting consumer finance to enhance affordability of PUE technologies

December 2021

1.1 Preamble

This document has been prepared by GIZ – EnDev Kenya in collaboration with GIZ - Water and Energy (WE4F) for Food for guiding cooperation and partnerships with companies and organisations implementing commercial/market-based business cases that **unlock consumer finance for smallholder farmers and small and micro enterprises** for acquisition and use of Productive Use of Energy (PUE) technologies/systems for income generation in dairy and horticulture value chains.

1.2 Sustainable Energy for Smallholder Farmers Project (SEFFA)

SEFFA is a regional project implemented in Ethiopia, Kenya and Uganda. The project is an initiative within the Energising Development Partnership ([EnDev](#)), co-funded by IKEA Foundation with a focus on improving agricultural productivity for smallholder farmers by facilitating increased market-based access to modern energy. This project is implemented by GIZ and SNV from 2021 to 2023.

SEFFA in Kenya seeks to support demonstration and scaling up of scalable and innovative business cases using renewable energy technologies for **cooling, irrigation, and drying** with the objective to improve production and livelihoods of smallholder farmers in the **dairy and horticulture** value chains in Kenya – with a special focus given to women and youth in rural areas. As such, the project expects to increase productivity and economic competitiveness of smallholder farmers active in the dairy and horticulture value chain and related businesses with the aim to improve their livelihoods, nutritional status, resilience to climate change, and the reduction of greenhouse gas emissions.

In Kenya, SEFFA is structured into two components i.e. the **market development** component which focuses on interventions for enhancing the distribution and uptake of PUE technologies while the **Access to Consumer Finance** component focuses on identifying and scaling interventions for enhancing the affordability of PUE technologies by smallholder farmers and small and micro enterprises in dairy and horticultural value chains.

1.3 Water and Energy for Food (WE4F) in East Africa

WE4F is a joint international initiative of the German Federal Ministry for Economic Cooperation and Development (BMZ), the European Union (EU), the Ministry of Foreign Affairs of the Government of the Netherlands, Sweden through the Swedish International Development Cooperation Agency (Sida), and the U.S. Agency for International Development (USAID).

In East Africa, the WE4F initiative is implemented through the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH with the aim of scaling innovations, strengthening the capacities of end-users and multipliers to adapt innovations, and supporting innovation ecosystems across the water-energy-food nexus.

1.4 Overview and objective of access to consumer finance interventions

Although awareness, distribution and technical support challenges can be addressed organically as the market develops, the high initial cost for Solar PU systems is a key hindrance to unlocking uptake and use by smallholder farmers as well as small and micro enterprises in rural areas. This scenario can be attributed to the limited availability of appropriate financial solutions coupled with low-income levels of potential end consumers. Even though some Pay-As-You-Go business models have been initiated to bridge this gap, only a few solar PUE companies have the capacity to run them due to lack of adequate capitalization to run inhouse credit schemes. On the other hand, mainstream financial institutions lack experience with financing PUE technologies and are generally reluctant to engage with smallholder farmers and micro-entrepreneurs, especially those in the informal sector as they see the sector and the potential borrowers as high risk.

To enhance the affordability of solar PU solutions by smallholder farmers and rural small and micro-enterprises, the SEFFA and WE4F projects will tailor make support packages to facilitate **consumer finance** interventions such as sensitization and capacity build of selected financial intermediaries interested in developing and upscaling innovative commercial/market-based consumer financing for PUE technologies. Support packages will also include enabling **B2B (business to business) linkages** with appropriate suppliers, provision of **result-based-financing (RBF) incentives** and **Technical Assistance (TA)**.

1.5 Potential Financial Intermediaries

The projects seeks to partner and collaborate with up to six financial Intermediaries with high potential proposals interested in or already providing consumer financial solutions for PUE technologies in horticulture and dairy value chains. These include:

- i. Banks
- ii. Microfinance Institutions
- iii. Savings and Credit Cooperative Societies (SACCOs)
- iv. Organisations aggregating & contracting smallholder farmers (with financing solutions for farmers through check-off systems)
- v. Organisations with Digital Financing Platforms
- vi. Organizations aggregating and managing Financial Services Associations (FSAs)

1.6 Eligible Technologies

The projects will be promoting solar for productive use solutions in dairy and horticulture value chains including but not limited to:

- Solar water pumping
- Solar cooling

- Solar drying
- Solar solutions for processing and value addition for agricultural produce e.g. grinding, milling, foliage shredding, chaff cutting etc.

1.7 Eligible activity areas

The projects shall focus on, but not limited, to the following activity areas:

- Promotion, marketing and awareness creation for financial solutions for solar for productive use
- B2B linkages with suppliers of technologies
- Development and improvement of financial products
- Capacity building for staff/actors in the last mile distribution of financial services for solar PU solutions
- Organization of potential end users into peer groups for risk mitigation and development of last mile distribution channels for financial services for solar PUE solutions.
- Development of financial literacy content and capacity building of consumer finance staff

1.8 Opportunity for Cooperation with Financial Intermediaries

EnDev Kenya shall invite relevant companies with capacity to develop and/or upscale consumer financing solutions for solar PU technologies for smallholder farmers and small and micro enterprises in dairy and horticulture value chains through a Call for Expressions of Interest (Eoi).

The first call for Eoi will commence on **3rd December 2021** and applications will be accepted from interested companies/organisations on a rolling basis until 15th January 2022.

EnDev Kenya shall evaluate the Eois and carry out due diligence process to verify the information of the Eois and thereafter the applicants will be informed on their eligibility to participate in the project.

1.9 Innovative Business Cases

As part of the Eoi, the organization shall propose at least one (1) innovative, sustainable and commercially viable business case¹ for consumer financing for PUE technologies for smallholder farmers and small and micro enterprises by way of leveraging consumer finance instruments . Also provide a clear description of barriers to scaling, propose interventions/activities to overcome them and demonstrate how support from the project will accelerate scaling.

The proposed business cases should:

- Have a unique and innovative value proposition to increasing affordability of PUEs in dairy and horticulture value chains.
- Have commercial viability and be scalable to rural markets.
- Have clear and demonstratable benefits/impact to incomes and livelihoods of end users i.e. smallholder farmers and rural small and micro enterprises.

For purposes of this call for EoI a **business case** is defined as an innovative approach that brings together demand side (end user like smallholders or local small & micro enterprises) and Financial Services supply side (local SACCOs, MFIs, Farmer Co-operatives etc.) of solar PU technologies and energy services in an economically and financially viable way and that is culturally accepted, legal and practical in the local context, gender-sensitive, with opportunities for youth and/or other disadvantaged groups, and that has good market potential across the country or region; A business case could be for example the development and upscaling of solar water pumps financing by a SACCO targeting smallholder farmers for horticulture or dairy production to offset high cost of maintaining petrol powered pumps.

1.10 Specific application requirements

The project seeks to support companies/organizations which meet the following requirements:

- Legal business entity incorporated in Kenya
- Business operations in Kenya for at least 2 years (evidence of consumer finance for renewable energy technologies and/or agricultural finance) on a commercial basis
- Financial intermediaries providing consumer financing to smallholder farmers and small & micro enterprises in dairy and horticulture value chains.
- Develop and demonstrate at least one business case for financing solar PUE technologies for smallholder farmers and small & micro enterprises in dairy and horticulture value chains.
- Co-financing – the companies will be required to contribute to implementation costs (either in cash or in-kind) equivalent to at **least 50% of the estimated implementation budget**.
- Willingness to participate the project whose interventions shall be through a **results-based support approach**
- Willingness to report agreed upon milestones or results (e.g. credit sales data) to the project.

1.11 Project Contribution to Support Beneficiary Companies

The project has set up support packages to facilitate up to **3** companies to develop and promote the uptake of consumer finance for solar PU technologies in Kenya. The contribution from the project shall be effected through a results-based framework which shall be based on the agreed upon milestones/results. The contribution from the project shall be channelled through either of the following two options:

a) Results-based financial incentive pay-outs to companies based on agreed interventions and results

An incentive structure shall be developed to guide the incentive pay-outs. This shall be done in a participatory manner after the selection of eligible companies/organisations with inputs from the selected applicants. The incentive structure shall consider the specific needs of the applicants to mitigate temporary market barriers for developing and scaling financial models that enable affordability of solar PU solutions.

b) Technical assistance or facilitation of agreed upon measures

Under this option, there is no flow of funds to the private partner. GIZ and private partner shall plan, allocate and agree on the interventions to be implemented by each organization. Each organisation pays for its own work package as per the agreed plans and budget. The implementation of the interventions should be properly planned and synchronized from GIZ and the partner's side. The activities facilitated by GIZ shall be done in line with **GIZ financial and procurement processes**.

1.12 Modalities of engaging Beneficiary Companies

GIZ has two modalities for engaging private sector companies under the umbrella of integrated development partnership with private sector i.e. **cooperation agreement** and **service contract**.

- **Cooperation agreement:** no money flow between partners and partners co-implement agreed upon measures
- **Implementation agreement:** GIZ provides a results-based financial contribution to the private partner, whereas the private partner is responsible for implementation and delivery of results.

The general principles for the cooperation between GIZ and private sector include:

- Private company/partners should be institutionally strong (technically, human resources, solvency)
- Cooperation should be clearly linked to development outcome(s)
- Cooperation is backed up by commercial/economic interest of the private company/partner
- Complementarity to achieve common objectives and results efficiently, faster and economically
- The cooperation is part of the long-term company involvement
- The cooperation may not distort the market
- The private sector must contribute 50% of the budget of the measures under the cooperation
- The company should demonstrate that there is need for support and could not carry out the initiatives by its own

Below is an overview of the differences between the two modalities:

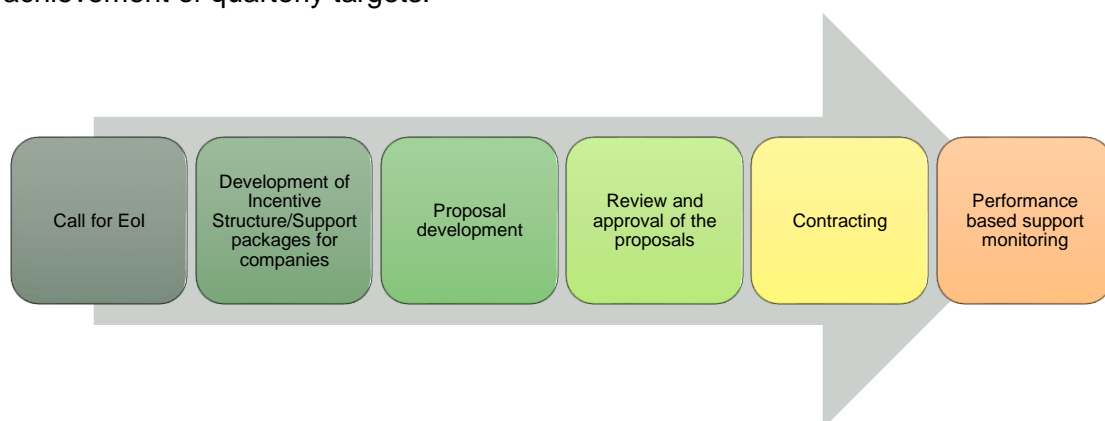
Area	Cooperation Agreement	Implementation Agreement
Flow of funds	<ul style="list-style-type: none"> • No flow of funds from GIZ to the partner 	<ul style="list-style-type: none"> • There is flow of funds from GIZ to the partner
Co-financing from private sector partner	<ul style="list-style-type: none"> • At least 50% of the budget and dedicated to the project (in-kind or cash) • Running/operational and administrative costs is not eligible for co-financing 	<ul style="list-style-type: none"> • At least 50% of the budget and dedicated to the project (in-kind or cash) • Running/operational and administrative costs is not eligible for co-financing
Mode of implementation	<ul style="list-style-type: none"> • Joint implementation where GIZ and partner agree on work packages for each organisation. • Each organisation pays for its own packages. 	<ul style="list-style-type: none"> • Partner implements the project independently • Partner responsible for delivery agreed-upon results
Mandatory legal and commercial requirements	<ul style="list-style-type: none"> • Legal business entity incorporated in Kenya 	<ul style="list-style-type: none"> • Legal business entity incorporated in Kenya • Tax compliance

Area	Cooperation Agreement	Implementation Agreement
		<ul style="list-style-type: none"> • Audited Accounts
Commercial due diligence	<ul style="list-style-type: none"> • Not required 	<ul style="list-style-type: none"> • Required
Audit of the private partner	<ul style="list-style-type: none"> • External audit of the partner is NOT required 	<ul style="list-style-type: none"> • External auditor (commissioned by GIZ) certifies expenditures (both GIZ & partner contribution)
Verifications of agreed upon results	<ul style="list-style-type: none"> • Internal verification by GIZ (external verification is optional) 	<ul style="list-style-type: none"> • Independent verification required

1.13 Implementation roadmap of activities

The financial intermediaries selected to participate in the project shall take lead in planning and implementing specific activities and delivery of the results.

- **Proposal development:** The companies shall therefore be required to prepare proposals, workplans and budgets of specific measures to be supported by the project. These shall be done using GIZ prescribed templates.
- **Review and approval of the proposals:** The proposals, workplans and budgets shall be submitted to GIZ for review and approval.
- **Contracting:** Upon the approval of the proposal, workplan and budgets, GIZ will enter into an agreement with the selected private partners. The terms and scope of implementation including the targets shall be stipulated in the agreements/contracts (mentioned above). This shall be agreed upon prior to the completion of the agreements/contracts.
- **Performance based support monitoring:** The continuity of support from GIZ - EnDev Kenya shall be based on the achievement of pre-agreed results in-line with the key indicators and targets of the activity framework and more particularly on the number of end consumers buying solar PU systems. This shall be assessed quarterly based on the achievement of quarterly targets.



1.14 Monitoring and sales reporting

EnDev Kenya undertakes close monitoring of the achieved results and the additionality of the project. The partner company shall therefore be providing specific monitoring data to GIZ-EnDev Kenya. This data shall include but not limited to sales data, LMEs details and end-consumer details. The information collected shall also be verified from time to time. GIZ and the partner company shall therefore agree on an effective and efficient method for collecting and verifying the data including relevant data collection tools. These monitoring and reporting modalities shall be stipulated in the agreement/contracts.

1.15 Other considerations

There is generally slowed down of operations in the Country due to government public health guidelines and restrictions because of Covid-19 pandemic. This will change gradually as the situation return to normalcy. The project shall also support specific Covid-19 response measures related to the above activities for instance provision of protective equipment and related support which shall be assessed on a case by case basis before approval. These should be considered in the proposals from the partners.

1.16 Contacts

To express your interest for this call for EoI, **send an email to: info-energyke@giz.de** indicating your contact & company details and demonstrating your eligibility to promote and provide financial services for Solar for PU.

For inquiries contact:

Energising Development Kenya Programme (EnDev Kenya)
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
Westcom Point, 5th floor, Block B, Mahiga Mairu Road
P.O. Box 41607- 00100
Nairobi, Kenya
T + 254 20 2731828
M + 254 743 688 508
I www.endev.info
I www.giz.de