



REACT Kenya
Results Based Financing
Programme (REACT RBF)



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REACT Results-Based Financing (RBF) Term Sheet	
REACT Sub-Saharan Africa (REACT SSA) is a US\$61 million project funded by the Swedish International Development Authority (Sida) to support clean energy access in Sub-Saharan Africa, with a dedicated funding of US\$ 4 million for Kenya.	
1. Definition of RBF	Results-based finance (RBF) is a grant funding mechanism based on payment on delivery of measurable and verifiable outputs. Participating companies are expected to carry the full risks and costs of implementation and receive grant disbursement upon delivery; against agreed upon metrics and based on agreed upon incentives.
2. Objectives	<ul style="list-style-type: none">▪ Support transformational business models to adapt to target markets in order to accelerate access to low cost, clean energy i.e. cleaner fuels, cook stoves, alternatives to grid power▪ Support commercially viable companies and markets, out of which 25 percent will be women owned or managed and/ or provide entrepreneurship opportunities for women and youth within their value chains▪ Support innovative ideas that stimulate next generation approaches in the clean energy sector▪ Capture and disseminate lessons on how increased access to clean energy can deliver positive impact on the rural poor, especially women, through: i) business models, and ii) improved business environment, through policy influencing and advocacy, iii) improved business environment through crowding in, replication and copying best practice.▪ Contribute to improved policy, legal and regulatory environment for clean energy businesses within the target countries.
3. Facility size	<ul style="list-style-type: none">▪ US\$4 million
4. Currency of payouts	<ul style="list-style-type: none">▪ USD
5. Length of project	<ul style="list-style-type: none">▪ RBF implementation from contracting: 2.5 years (July 2021 – Dec 2023) for implementation and 0.5 years (Jan - Jun 2024) for verification and disbursements of final RBF claims
6. Length of contract	<ul style="list-style-type: none">▪ 3-year contract with RBF sales targets, RBF financing requirements, milestone disbursement schedules and RBF allocation reviewed annually.

<p>7. Eligible uses of RBF funding</p>	<ul style="list-style-type: none"> ▪ Clean energy products or services that provide: access to electricity (for off-grid households and/or productive engagements) and access to clean and/or efficient cooking ▪ Electricity access products and/or services categorized as Tier 1 (with multiple lights) and Tier 2, or that enable existing Tier 1 and Tier 2 households continue to climb up the electricity access ladder. ▪ Cook stoves that meet and/or exceed Tier 2 fuel use efficiency for wood and Tier 3 fuel use efficiency for charcoal. ▪ Cook stoves and fuel solutions that meet the Tier 4 threshold for indoor emissions e.g. LPG ▪ Includes sustainable fuels e.g. pellets, briquettes, bioethanol ▪ Special conditions for mini-grid projects: <ul style="list-style-type: none"> – Since the average REACT RBF incentive per household will be relatively small compared to the typical mini-grid connection cost (estimated at 1,200\$ per connection), the REACT RBF will focus on strengthening existing mini-grids by providing incentives that enable mini-grid operators to increase access to suitable appliances or equipment for their existing mini-grid customers. It is envisioned that this would enable these customers climb the energy access ladder (and where feasible engage in productive use), and also result in an increase in revenue generation for mini-grid operators, due to increased electricity consumption ▪ Exclusions: Grid connected projects and captive power projects ▪ Projects should demonstrate additionality (i.e. RBF is used to establish new markets) and sustainability (i.e. plans to sustain and/or grow the new markets post RBF)
<p>8. RBF structure</p>	<ul style="list-style-type: none"> ▪ Two step application process: <ul style="list-style-type: none"> – Step 1: Qualification stage based on an application form providing details that will be used to select the companies that are eligible – Step 2: Award stage based on an RBF business plan and financial model outlining the strategy to establish a new market and detailing e.g. RBF sales targets, projected cost of sales and operational costs and the sources of finance to cover this (including the RBF financing requirement) ▪ To encourage applicants to design, develop and implement business models that increase access to clean energy for poor households, a 20% pro-poor bonus, in addition to an incentive per verified sale, will be paid to companies for whom $\geq 25\%$ of verified RBF sales are to poor households¹ ▪ Applicants implementing or interested in implementing a pro-poor business model can apply for the pro-poor bonus. The pro-poor bonus has additional and separate eligibility criteria; interested companies will be required to describe their pro-poor business model and how it effectively targets poor households. The pro-poor bonus is only available to companies who apply and qualify for it. ▪ Annual RBF allocations will be based on the approved business plan and provided in the contract. Allocations will be reviewed annually to determine if unused allocations should: (1) be transferred to a subsequent year (2) transferred to other companies who have exceeded their allocation² or (3) a combination of both. ▪ This decision will be made after an internal review of all the companies in the RBF portfolio. Thresholds to guide the decision above are an unused allocation of $<25\%$ for (1) 50-75% for (2) and between 25 and 50% for (3) ▪ RBF disbursement process – (1) Company submits RBF claim when it reaches the sales milestone agreed in the contract (2) claim goes through internal (AECF) and 3rd party verification process (3) material variances between the company claim and AECF's and the 3rd party's verification results discussed between the parties to determine the amount to be disbursed for the claim ▪ The verification process will be continuous (i.e. with data for verification being submitted monthly) so as to minimize the duration between completion of sales milestones and disbursement of RBF (due to the time required for the verification process)

¹ For example, if company X reports that they have sold 2,000 clean cook stoves through their RBF project, two verifications will be undertaken: an RBF sales verification - to confirm the sales and a pro-poor verification - to determine whether $\geq 25\%$ of verified sales were to poor households (as described in the section below). If the terms of the RBF agreement specify an incentive of 15\$ per clean cook stove sold, the company will receive a total RBF sales incentive of 30,000\$ (upon successful RBF sales verification). If the pro-poor verification determines that $\geq 25\%$ of verified sales were to poor households, the company will receive an additional bonus payment of 6,000\$ (i.e. 20% of 30,000\$)

² It is expected that companies will report on all their RBF beneficiaries, even though RBF payments will only be made up to the contracted allocation

9. Information to be provided by applicants

- Description of product/service targeted for RBF,
- Price of product/service,
- Cost of product/service (i.e. cost of sale and operations cost per unit),
- Historical sales data for Kenya (2017-2019) of the product/service targeted for RBF (or similar, if a new product/service is being proposed),
- Tier classification of the product/service as per the SEforAll multi-tier framework. Demonstrate that the product/service meets or exceeds the Tier 1 (with multiple lights) electricity access tier, or in the case of cook stoves, meets or exceeds Tier 2 fuel use efficiency for wood, Tier 3 fuel use efficiency for charcoal or Tier 4 for indoor air emissions
- Local or international standard that the product meets and 3rd party certification that the product has received (with supporting documentation),
- Warranty specifications and procedure for addressing warranty claims,
- Counties where product/service is currently marketed,
- Additionality argument – how would the applicant use the RBF incentive to establish new markets, Proposed RBF requirement – RBF amount i.e. US\$ per household served and RBF percentage of product price (or e.g. joining fees for the provision of an energy service),
- Total household target,
- Total RBF requirement (i.e. \$ per HH × total number of HH),
- A description of their pro-poor business model (i.e. how the RBF incentive will be used to increase access to clean energy for poor households); including their approach to deliberately identify and target poor households.³
- Estimate of upfront finance the company will need to secure to implement the proposed RBF project and details of where the company will source this upfront finance from (with supporting documentation),
- Description of the company's customer relationship management system (or customer data collection process) e.g.:
 - Explanation of how the company will be able to distinguish HH benefiting from RBF from other customers it sells products and services to.
 - A description of how the company distinguishes poor household customers through its customer data collection processes.
- Description of the company's financial management system, processes and procedures and information on the financial management team structure and qualifications and experience of its personnel
- Supporting documentation: Company registration, two years audited accounts and detailed organizational structure (also indicating outsourced services and roles of commission based staff)

³ The Poverty Probability Index ((PPI) <https://www.povertyindex.org/>) will be used as the measurement tool to determine the percentage of households, for whom RBF sales have been reported, are most likely to be poor. The REACT RBF program defines poor households as those with a PPI score of ≤50 (or poverty likelihood of ≥30.2%) as determined using the National Poverty Line Score Card and Look-up table (Kenya 2015 PPI)

10. Eligibility criteria	<ul style="list-style-type: none"> ▪ Are a private sector company legally registered and physically established in Kenya ▪ Have been effectively marketing the product/service targeted for RBF (or a similar product/service) in Kenya for at least 2 years. Companies with less than 2 years of market experience that can demonstrate notable sales growth during their period of operation can be considered ▪ Propose a product or service that meets or exceeds the proposed energy access tiers i.e. the Tier 1 (with multiple lights) electricity access tier, or in the case of cook stoves Tier 2 fuel use efficiency for wood and Tier 3 fuel use efficiency for charcoal ▪ Demonstrate the quality of proposed product or service and the effectiveness of their after sales support service ▪ Make a convincing additionality argument (i.e. the approach to establish new markets is not business as usual i.e. something that the company would have done on its own in the absence of RBF) ▪ Have an operational customer relationship management system or can demonstrate the ability to effectively track sales and collect and store basic customer data ▪ Demonstrate capacity of management team to implement the proposed business / project (adequate internal resources/capacity) - headquarter and in country. ▪ Demonstrate understanding of the country context and culture where the project is proposing to operate ▪ Demonstrate the ability to raise the upfront finance required to implement the proposed RBF project ▪ Be compliant with fundamental in country and international human rights, labour standards, environmental management laws ▪ Must NOT be involved in any act of terrorism or support terrorists' activities ▪ Must allow regular due diligence by AECF.
11. Award criteria	<ul style="list-style-type: none"> ▪ Level of Additionality: Clear demonstration that the incentive will be used to establish new markets (e.g. unserved or underserved area/region, new market segment (e.g. micro-enterprises, households lower down the pyramid)) and justification that the approach is not business as usual (i.e. that it is not something the company would have done on its own in the absence of RBF) ▪ Proof of additionality: Clear demonstration that the proposed approach and/or the company's information management system can explicitly distinguish sales achieved under the RBF project from sales from business as usual ▪ Value for money: Determined by indicators such as the RBF requirement per household, the number of households reached, the net benefit per household, jobs created and the co-finance provided ▪ Sustainability: Demonstration that the company will be able to continue to effectively serve and grow the markets established post RBF ▪ Strong pro-poor business model elements: Demonstration that the proposed approach has good potential to increase access to clean energy for poor households.

<p>12. Funding window and application review</p>	<ul style="list-style-type: none"> ▪ One funding window - Single Call for Applications from which eligible companies are selected during the qualification stage to proceed to the award stage. ▪ During the qualification stage applications will be reviewed to check that applicants meet the following minimum requirements: <ul style="list-style-type: none"> – Their proposed products/services are eligible – Demonstrate they can raise the upfront finance required to implement the proposed RBF project – Demonstrate sufficient operational and financial capacity to implement the proposed RBF project, and – Demonstrate they are a private sector company legally registered and physically established in Kenya ▪ Applicants that meet the minimum requirements above will then be scored and ranked on the following: <ul style="list-style-type: none"> – Experience selling similar products/services (10 marks) – The viability and additionality of the proposal to use the RBF incentive to establish ‘new markets’ (20 marks) – The ability of the applicant’s customer relationship management system (or customer data collection process) to distinctly track sales achieved as a result of the RBF supported project and differentiate them from existing sales (10 marks) – The viability of the proposed pro-poor business model (10 marks) ▪ Additional considerations will be made by the AECF Internal Investment Review Committee (IIRC) to: <ul style="list-style-type: none"> – Increase the estimated value for money of the selected projects/companies – Include majority Kenyan owned companies⁴ – Increase the diversity of the portfolio ▪ During the Award Stage companies will prepare a business plan and financial model and due diligence of the selected companies will be undertaken ▪ Designate AECF Programme staff, supported by external technical experts, will undertake due diligence and provide eligible companies with guidance during the preparation of their business plan and financial model ▪ The AECF Investment Committee will determine which eligible companies proceed to contracting based on the business plan and financial model, and input from program management team and external technical experts assigned to qualifying companies.
<p>13. Duration of awards</p>	<ul style="list-style-type: none"> ▪ Companies to be contracted from Q2 2021 ▪ Final RBF claims must be submitted 6 months prior to the close of the project (i.e. end 2023)

⁴ Companies where shareholders of Kenyan nationality have ≥50% shareholding

14. RBF award size	<ul style="list-style-type: none"> ▪ Maximum (interim) award size per company of 500,000US\$ at contracting. Flexible reallocation system to allow companies that exceed their milestone targets to increase their cap to US\$1 million ▪ Pro-poor bonuses are additional payments and not considered as part of the cap ▪ RBF per unit/household capped at 30% of the retail price of the product or service, but should not exceed 45\$⁵
15. Applicant Contribution	<ul style="list-style-type: none"> ▪ The contribution from companies is expected to be a percentage of the product or service cost i.e. the costs incurred to create and deliver the product or service ▪ The RBF verification process will incorporate a continuous review and reporting of the actual product or service cost and the percentage of this cost that is covered by the RBF incentive payment
16. Disbursement	<ul style="list-style-type: none"> ▪ Disbursements made in tranches based on the achievement and verification of the sales milestones agreed upon in the contract ▪ Two verifications will be undertaken: an RBF sales verification - to confirm the sales and a pro-poor verification - to determine whether $\geq 25\%$ of verified sales were to poor households ▪ Upon verification, 90% of the RBF sales incentive claim is disbursed. 10% of each RBF claim to be withheld and paid after end 2023 subject to spot check verification to establish that units sold over the contract duration are still functioning ▪ With the RBF incentive only paid upon delivery and verification of sales, the RBF program requires companies to separately source for the upfront investment required to implement their proposed RBF project. Acknowledging the financial and market challenges brought about by the Covid-19 pandemic, applicants have the option to propose an alternative RBF disbursement schedule for the 90% portion of the RBF sales incentive only (linked to measurable and verifiable milestones, preferably purchases and sales), which would help ease their cash flow burden. The 10% portion of each claim remains fixed. While AECF will take alternative disbursement schedules under consideration, its preference is for the 90% of the RBF sales incentive upon verification. ▪ For the pro-poor bonus, the threshold of $\geq 25\%$ sales to poor households will be determined from sales over a period of at least 6 months (to ensure a representative sample size). ▪ It is acknowledged that there will not always be alignment between the period required to reach milestone sales and the 6-month sales requirement to determine whether companies have met the pro-poor sales threshold. In such an event the pro-poor bonus calculation can be based on more than one disbursement claim payment (so long as the sales covered in the combined claims cover a period of 6 months or more).
17. Commitments from successful investees	<p>If selected, applicants must be committed to:</p> <ul style="list-style-type: none"> ▪ Collaborate with AECF to finalize contract milestones and KPI's. Milestone indicators are agreed with AECF before signature of the contract. ▪ Share data, including performance against indicators and milestones. All data will be treated confidentially, unless otherwise agreed in advance. ▪ Commitment to gather, analyze and share learnings from the project with AECF. ▪ Report according to agreed schedules and requirements. ▪ Participate in AECF/Sida annual program reviews. ▪ Ensure financial data and other management systems are accessible for audit purposes upon request. ▪ Share E waste management strategy with AECF, where applicable
18. Application process	<p>Applications will be accepted between 8 December 2020 and 26 January 2021. The application window closes at 11:59 pm EAT on 26 January 2021. All applicants must submit their application through AECF's online platform - https://aecf.submittable.com/submit/09c4b7d8-2ff7-47ff-94c6-7a27f2f56ca7/react-kenya-results-based-financing-programme-react-rbf</p>
19.Disclaimer	<p>This call for application is not binding upon The AECF and no legal right or obligations arises therefrom. The AECF reserves the right to determine the structure of the selection process, number of short-listed applicants, the right to withdraw from the process, the right to change timetables at any time without notice and reserves the right to withdraw this call for applications at any time, without prior notice and without incurring any liability to indemnify, compensate and/or reimburse any party whatsoever.</p>

⁵ Based on the total RBF available for disbursement (US\$4million) and the REACT SSA program target for Kenya (87,441)