

Results based finance for cleaner cooking: Experiences to Date and Ideas for Improvement

Pathways to Clean Cooking 2050

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The logo for Differ, featuring the word "DIFFER" in a bold, black, sans-serif font. The letter "I" is stylized with a green vertical bar on its left side. The logo is set against a white rectangular background.

DIFFER

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Co-Founder, Differ

- > Norwegian company founded and run by financial, renewable energy and energy efficiency professionals who have developed and sold successful businesses
 - www.differgroup.com

- > Focus: ***Renewable energy and energy efficiency solutions beyond the grid***
 - Small-scale/mass market
 - Scalability/replicability

- > Business areas:
 - New ventures and financing/investments
 - Advisory and analysis

- > Geographical focus:
 - Sub-Saharan Africa
 - South-East Asia

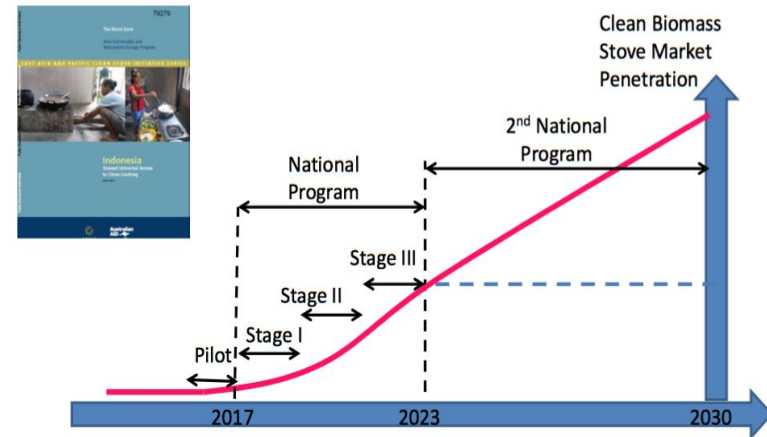
What is results based finance

- > Funder pays recipient **after** pre-agreed results achieved
- > Recipient chooses how to achieve results
- > Independent verification of results triggers payment
- > Motivations:
 - Accountability of funder and recipient
 - Increase the likelihood that recipient acts in line with the funder's objectives
 - Risk sharing between funder (usually spending public money) and (usually private sector) recipient
 - Partial payments can be made for intermediate outcomes or outputs
 - Encourage efficiency and effectiveness
 - Recipients incentivized to find innovative approaches to deliver the agreed results
 - Funds often provided to any entity meeting eligibility criteria > competition, and benefits for the fast movers
- > Common approach in health, education, forestry (REDD) - and now energy

Stove RBF experience 1: Indonesia Clean Stove Initiative

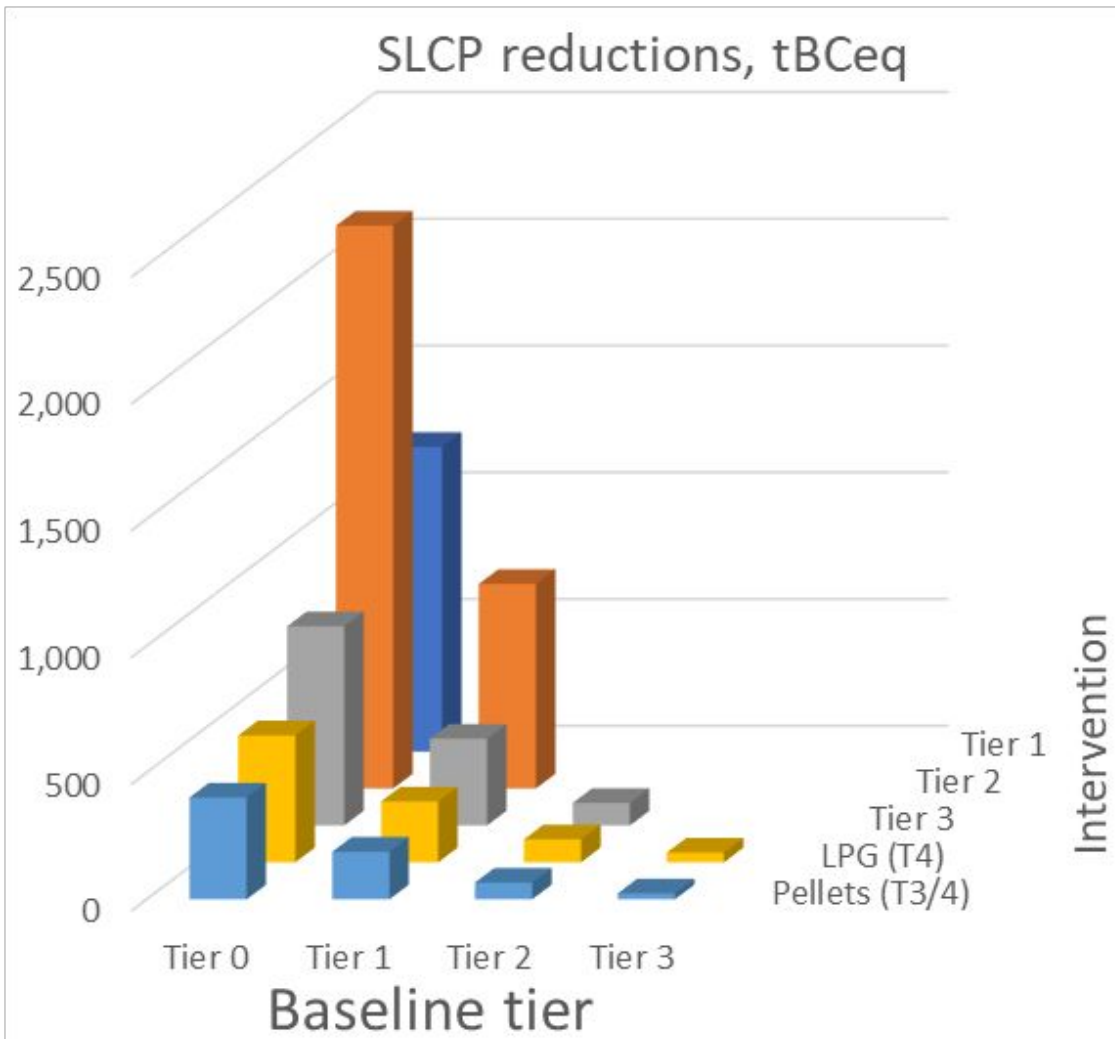


- > Mid-2015 to end-2017 (pilot)
- > “Market aggregators” (producers, distributors++) got RBF based on
 - test results thermal efficiency, CO, and PM2.5, adapted to local setting
 - verified sales to households
- > Max 50% of stove cost (max ~20USD)
- > Target 10k (7k) stoves, subsidy 22,57 USD
- > Result: 7900 stoves @ 12,39 USD/stove
- > Uncertainty regarding post-pilot scale-up
 - No non-Indonesian producers
 - No large local distributors
- > Frontloaded payments to help weak distributors – no luck
- > No conversion to scaled programme, distributors closing or bankrupt



- > March 2016-September 2018, ~15000 stoves
- > Setup:
 - International manufacturers received guaranteed price for their stoves
 - Stoves sold to local distributors through bi-weekly SMS-based stove auctions
 - Local distributors bid, 'lot' (small # of stoves) to highest bidder
 - Difference between the auction bid price and guaranteed price: RBF
- > Assumption: Local demand increases > local distributors can charge higher prices and can bid higher > large RBF incentives per stove can be reduced
- > Outcome: Limited uptake, didn't reach critical mass, nor large enough distribution network
 - Only distributors with experience from Cambodia solar RBF participated
 - Didn't tackle cashflow management challenge: purchasing stoves upfront and selling them later

Short-lived climate pollutants benefits from a given intervention (30m USD)



- Mid-tier stove to low-tier baseline reduces emissions most
- It is difficult to see large reductions implementing a Tier 3/4 intervention from a Tier 2 baseline
- LPG and pellets interventions are cleanest but most costly value chain

- > **Tune the RBF level to meet distribution targets** - depends on
 - The need for establishing new distribution channels
 - The extra costs of the stoves/fuels to be introduced
 - MRV and payment procedures

- > **Finance (locally) tested products – and finance the testing**
 - Availability of local stoves can lower RBF need significantly
 - Scrap WBT, use tests adapted to local cooking environment

- > **Help (local) distributors develop**
 - Allow partial RBF payouts based on stock purchase and sales
 - Combine with sales training
 - Consider small loans with attractive interest rate to get them started
 - Avoid markets with few/financially weak/unsophisticated local distributors

- > **Be predictable:** Clarify planned RBF period, and gradual phaseout – or stay out

- > **Be flexible:** Adjust requirements to local realities underway if needed

- > **Have a clear exit strategy:** Bridge to (local currency) working capital

Takeaway points

- > Using results based finance to support transition from tier 0/tier 1 to tier 2 likely yields largest results per dollar spent
- > RBF works better for financially solid recipients that know how to manage their cashflow
- > The sustainability of RBF schemes is severely hampered by their short horizon, limited and deferred funding, and lack of a clear exit strategy

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