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# MESPT REVOLVING CREDIT FACILITY FOR COOKSTOVES



## MESPT AT A GLANCE

- Established in 2002, MESPT's mission is to support the growth of micro, small and medium enterprises by providing integrated business solutions for sustainable development
- MESPT provides wholesale loans and financial services support to financial intermediaries such as MFIs and SACCOs.
- With 34 active MFI and SACCO partners, MESPT has seven regional offices reaching across 34 counties in Kenya.
- Green Growth is a fundamental pillar of MESPT's work. Its credit facility for cookstoves, created in 2014, furthers its aim to support sustainable development in Kenya.

## MESPT REVOLVING CREDIT FACILITY FOR COOKSTOVES

Micro Enterprises Support Programme Trust (MESPT) was founded in 2002 by the Government of Kenya and the European Union. Its mission is to support economic development, job creation and poverty alleviation through enterprise support. MESPT offers wholesale financing to financial institutions throughout Kenya, complementing this financing with financial and business development services. In addition to its value chain and enterprise development activities, MESPT's core focus includes green growth through the promotion of clean, resource-efficient and climate-sensitive technologies and solutions.

MESPT launched its cookstove lending program in partnership with the USAID-funded Developing a Sustainable Cookstove Sector (DSCS) project in 2014, aiming to provide working capital financing for cookstove distribution companies and microfinance institutions interested in distributing improved cookstoves. The cookstove lending program fit well within MESPT's Green Growth strategy, furthering its mission of supporting enterprise and alleviating

poverty. MESPT created a revolving loan facility for cookstove products that offers financing at 13 percent interest. The program supports distribution of both wood and charcoal cookstoves ranging from around \$25 to \$70USD from BURN Manufacturing, EcoZoom, Envirofit and BioLite.

Under the DSCS project, **MESPT has disbursed nearly \$125,000USD in loans** for the purchase of roughly 4,000 cookstoves, with additional approved loans not yet disbursed. In addition to selling cookstoves through its financing facility, MESPT's introduction of manufacturers to microfinance institutions (MFIs) throughout Kenya has meant additional cookstove sales through these financial institutions, which had available resources to purchase stoves without a loan from MESPT.

## DEVELOPING THE MESPT COOKSTOVE LENDING PROGRAM

The MESPT cookstove facility began in 2014 through a partnership with BURN Manufacturing. MESPT was recruited to create and manage a loan fund targeted to BURN distributors in need of credit for larger stock purchases and to facilitate extended payment terms for distributors. In addition to the distributor lending component, MESPT began offering credit for cookstove purchases to its MFI clients to on-lend to their clients.

A revolving credit facility was created for both BURN distribution companies and MESPT financial institution (FI) clients for loans ranging from \$2,500 to \$50,000USD. While distributor interest in the lending facility has been limited (as discussed in more detail below) with only one distribution company approved for a loan, the demand for loans from the MFIs has been more successful. MFIs within the program often bundle the cookstoves with other credit products, making it easy for a client to finance a cookstove along with another existing loan (such as an educational loan) without additional diligence or application requirements, as well as offering cookstoves to their clients for cash purchase. While some MFIs are stocking the stoves, others are gathering interest from their clients and working directly with manufacturers to facilitate product deliveries. In this second scenario, the MFI is not responsible for stocking large quantities of products, focusing instead on reaching its network and financing cookstove products. This way introduces

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*"We have integrated the cookstove revolving fund into our institutional green financing program with dedicated financial resources and human capital. This will go a long way in increasing accessibility of quality and efficient cookstoves in Kenya."*

– Priscilla Gathiga – MESPT CEO

less risk to the MFI, as the only case of default during the MESPT cookstove fund pilot was with an FI that purposely purchased extra stock to store and sell to clients right before a country-wide cookstove price drop took place, essentially wiping out the MFI's potential margin on those stove sales. Through its introduction of clean cookstoves to its MFI clients, MESPT has created new networks for cookstove sales as well as provided credit to purchase the cookstoves.

## LESSONS LEARNED

While MESPT has successfully facilitated cookstove sales among MFI and SACCO clients, there was nonetheless limited uptake of credit by cookstove distribution companies within the program. There were several contributing factors to this lower than anticipated demand for credit. Many distribution companies expressed an aversion to paying interest on a loan, instead choosing to purchase small quantities of cookstoves directly from manufacturers more frequently. Another was the availability of “free” credit within the Kenyan market. The MESPT program initially targeted cookstove distributors, offering them access to credit at 13 percent. When engaging these distributors, MESPT found low levels of interest in the loan due to existing access to interest-free capital from grant funders and Kiva, a lending platform that offers credit at zero percent interest. Moreover, MESPT's lending requirements were not well suited for most distribution companies sourced in the initial pilot with BURN, many of whom were relatively new distributors who could not meet MESPT's requirements for multi-year audited financials and strong collateral. To further its wholesale lending activities for larger, more established financial and distribution companies, MESPT is incorporating the following lessons learned:

**Streamline lending processes.** As the cookstove lending program developed, MESPT made changes to streamline its lending processes, especially for repeat clients. When the program first began, a single loan could take an average of four months from application until disbursement. MESPT has reduced this approval timeline to two weeks (once all documentation is in place), facilitated by larger lending limits that can be approved by management and allowing for a quorum rather than a full vote on the loans.

**Create bundled and add-on loans.** In addition to streamlining its lending processes, MESPT is creating opportunities for bundling cookstove loans with other green energy products, such as solar lights. By combining multiple green energy products, organizations can take larger loans as well as diversify their product mix to strengthen their downstream market offering. MESPT is also working with its MFI clients to add cookstove loans into larger loan applications. Especially for agricultural loans where there is a synergy with household products, MESPT will approve an additional lending amount for clean energy products. This add-on approach allows for synergies between the extensive diligence process MESPT undertakes for a larger loan and the ability to add lower cost items such as cookstoves to the loan, thereby reducing transaction costs. MESPT's FI clients who finance cookstoves directly to end users also bundle products as add-ons with larger loans.

**Leverage networks for capacity building and marketing.** To facilitate growth in its green energy portfolio, MESPT sees the need for additional marketing and awareness raising around fuel-efficient cookstoves and the availability of credit through MESPT and its MFI clients. As its program develops, MESPT will focus its efforts more directly on clients who can promote green financing. MESPT plans to build MFI staff capacity to develop cookstove financial products.

## WHAT'S NEXT FOR MESPT'S COOKSTOVE LENDING PROGRAM

Going forward, MESPT will continue to look for new manufacturer partners and cookstove products, including opportunities for incorporating cookstoves that use alternative fuels such as ethanol. Manufacturer partnerships allow MESPT to introduce new products to its MFI and SACCO clients, and for manufacturers to refer clients to MESPT for financing new distributors and financial institutions. In addition to cookstove lending, MESPT is continuing to grow its other green energy activities, exploring new ventures in solar, biogas and agriculture that meet its renewable and efficient energy objectives. Through Danida, MESPT has launched a 5-year green growth program focusing on promoting green business models. In partnership with SNV through DFID under the Energizing Development (EnDev) program (a multi-donor partnership), MESPT has also launched a results-based financing facility, incentivizing financial institutions and other cookstove distributors to offer direct end-user financing for cookstove products.



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