



Credit: Global Alliance for Clean Cookstoves

## INCREASING INVESTMENT IN THE CLEAN COOKING SECTOR

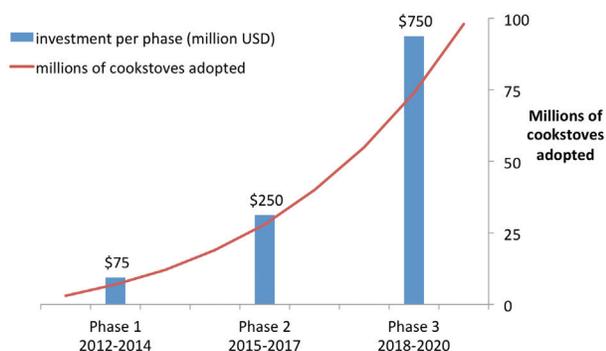


# A STRATEGY TO DRIVE INVESTMENT

**BACKGROUND** The Global Alliance for Clean Cookstoves is a public-private partnership with a mission to save lives, improve livelihoods, empower women, and protect the environment by creating a thriving global market for clean cookstoves and fuels, with a goal of enabling 100 million households to adopt clean and efficient cooking solutions by 2020.

Based on the input of over 350 leading experts and practitioners from across the globe, the Alliance has identified a market-based approach as the most sustainable way to achieve universal adoption of clean cooking solutions, as was validated in *Igniting Change: A Strategy for Universal Adoption of Clean Cookstoves and Fuels*. Coordinated and published by the Alliance, the report outlines a three-pronged strategy for creating a strong market for clean cooking solutions including:

- **Enhance demand** by understanding and motivating potential users, developing cleaner and more efficient technologies, and providing consumer finance;
- **Strengthen supply** by attracting more finance and investment, helping enterprises to access carbon finance, enhancing market intelligence; creating inclusive value-chains and innovative distribution models to reach remote consumers;
- **Foster an enabling environment** by engaging national and local stakeholders, building the evidence base for the benefits of clean cookstoves and fuels, promoting international standards and rigorous testing protocols and enhancing monitoring and evaluation.



Increasing investment in the sector is one of the six value propositions identified in the Alliance's ten-year business plan. In order to reach its 100 by '20 goal, the Alliance is looking to attract a billion dollars in investment in the sector. This investment is expected to ramp up from \$75 million between 2012 and 2014, to \$750 million from 2018 to 2020.

Funding and financing tools need to target clean cookstoves and fuels enterprises at different

stages of development. This capital will range from early stage grant funding, through subsidized capital, to angel equity, and ultimately commercial capital. Financing needs and challenges will also vary along the industry supply chain.

## Starting Point: Immature, Highly-fragmented Cookstove and Fuels Market

Despite decades of work by hundreds of organizations active in the sector to increase adoption of clean cooking solutions, the market remains under-developed and highly fragmented. The majority of enterprises across the cookstove and fuels value chain are small and medium enterprises (SMEs). Some of the challenges they face in the sector are similar, such as a lack of access to capital, while others are specific to their role in the value chain. In many markets, consumer awareness of clean cooking solutions is low and consumers are often suspicious of new technologies designed to replace traditional cooking methods and solid fuels. The result is that individual companies are often concurrently trying to build both an industry and their own business – a very expensive proposition.

Due to the fragmented nature of the sector, many players are attempting to play along the entire value chain, stretching resources rather than focusing in an area that leverages their strengths. Those that do try to specialize, often find it difficult to identify the right partners.

### Barriers to Past Investment

Although there have been investments in clean cooking enterprises and interest in the sector continues to grow among early stage impact investors, the lack of finance flowing to the sector remains high due to:

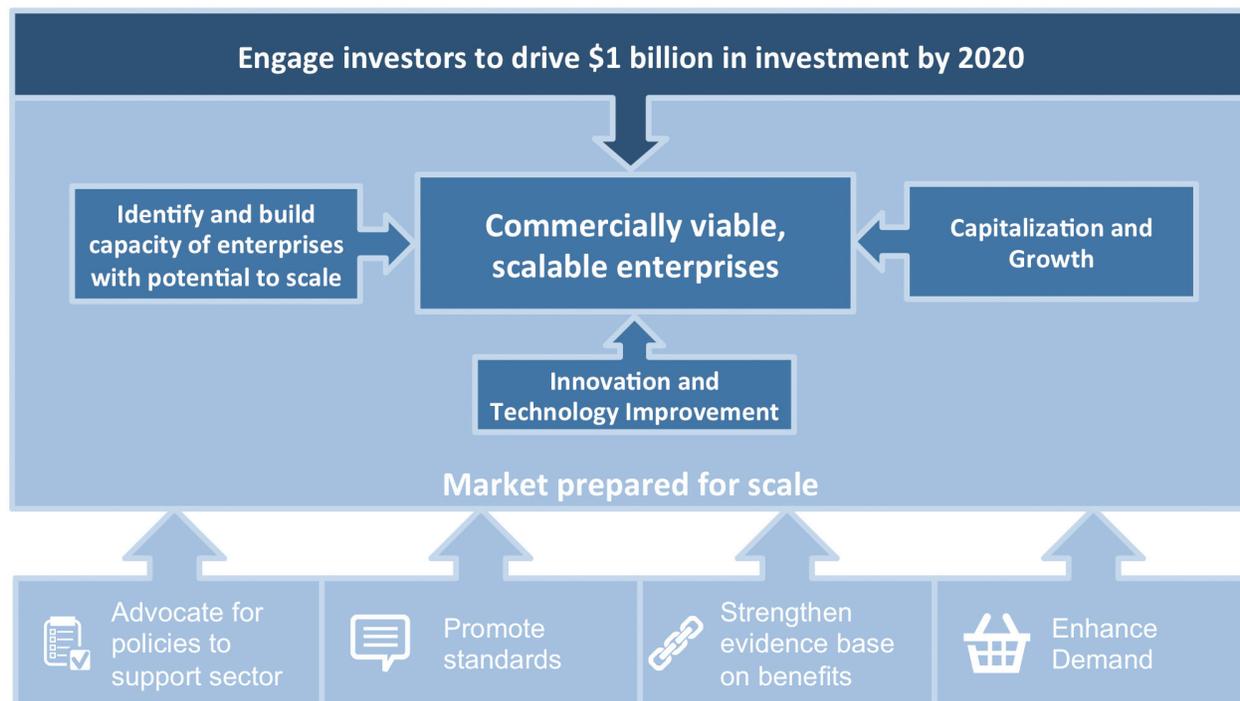
- Lack of maturity of the clean cooking sector:** The majority of impact investors look for market conditions that lend themselves to scale. This includes clear standards for assessing and benchmarking product performance, demand for the product, and an enabling policy environment. The reality in the clean cooking sector – lack of standards, low awareness of the benefits of clean cookstoves and fuels, and high import tariffs for raw materials and finished products is a higher risk proposition for investors.
- Lack of ‘investment ready’ businesses:** Most clean cooking enterprises are at an early stage of development and need patient capital as well as business development assistance. Capacity building needs depend on the enterprise and range from marketing strategy to streamlining manufacturing to budgeting and business planning. Few impact investors are prepared to provide money and technical assistance to early stage companies.
- Lack of knowledge about the clean cooking sector:** Many investors and financial institutions, including domestic and international banks, as well as microfinance institutions, have little or no knowledge of the clean cooking sector.



Credit: SNV

## Alliance Strategy to Drive Investment

In order to increase investment to grow the clean cooking sector, the Alliance is working to prepare the market for scale, support the development of commercially viable and scalable enterprises, and raise awareness in the investor community on opportunities within the sector.



## Preparing the Market for Scale

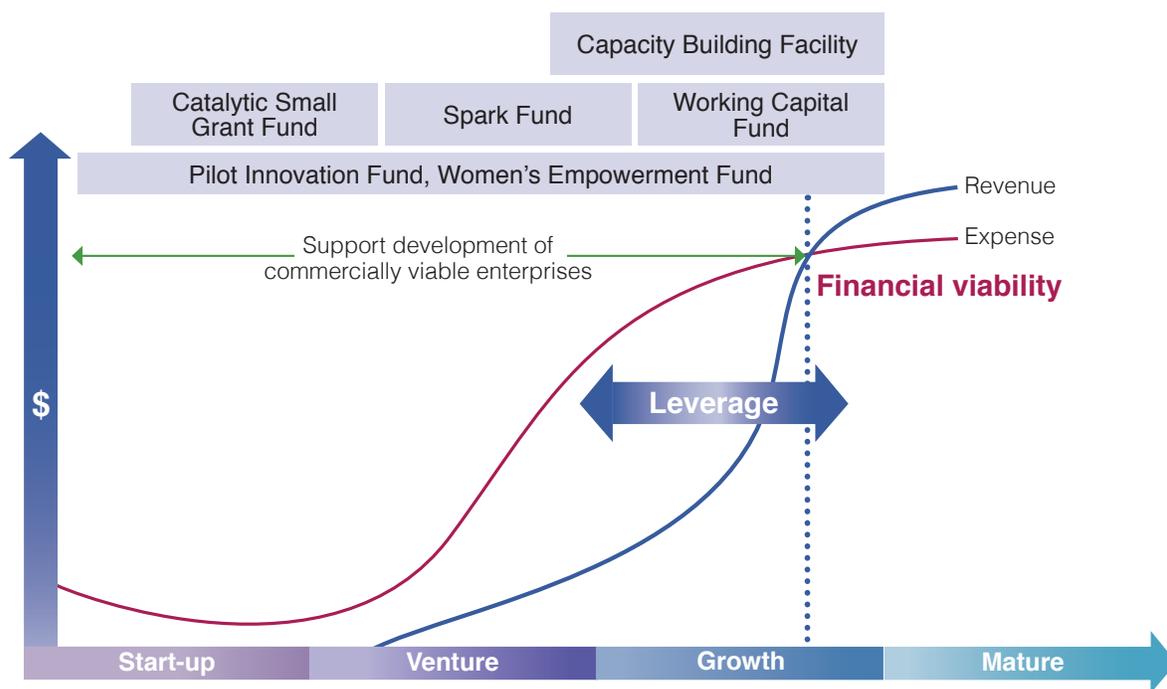
The Alliance is engaged in a variety of activities to generate demand for clean cooking solutions and develop a market enabling environment. To promote an enabling environment, the Alliance is engaging national and local government stakeholders, as well as funding research to build the evidence base for the benefits of clean cookstoves and fuels. To generate demand for clean cooking solutions, the Alliance is undertaking various activities, including studies to better understand consumers and marketing and awareness campaigns. A key priority for the Alliance is the development and implementation of international standards via the International Organization for Standardization (ISO) and the development of a global network of centers for stove testing. In addition, the Alliance has fostered the development of interim standards that define tiers of performance and interim standardized reporting guidelines.



Credit: Ranyee Chiang

## Developing Commercially Viable, Scalable Enterprises

Most clean cooking enterprises are at an early stage of development and require business capacity building as well as patient capital. In a recent *Stanford Social Innovation Review* article, Monitor Group and Acumen explored solutions for bridging the so-called ‘Pioneer Gap’ – the dearth of impact investors willing to invest in early stage businesses, preferring instead to invest once commercial viability has been established. These organizations suggest enterprise philanthropy – the use of grants to bridge the gap between startup and scale – as one possible solution. From 2012 to 2014, the Alliance and its partners have driven approximately \$50 million in investment to clean cookstove and fuels enterprises. Over this period the Alliance has worked with investors to understand the barriers to their engagement in the sector and focused on developing a suite of financial products to enable clean cookstoves and fuels enterprises to grow their businesses, become more investment ready, and leverage further investment.



Start Up	Venture	Growth	Mature
<ul style="list-style-type: none"> <li>•Sales are minimal or may not have occurred yet</li> <li>•Core technologies or service offerings are still in development</li> <li>•Consumer needs are still being assessed</li> <li>•Customer sales trials</li> </ul>	<ul style="list-style-type: none"> <li>•Sales begin but do not sustain the organization's operations</li> <li>•The business model and plan are still being developed and adjusted based on realities of the market</li> <li>•Cost, value and pricing are still in flux</li> <li>•Educating the consumer-below the line marketing activities</li> </ul>	<ul style="list-style-type: none"> <li>•Sales sustain initial operations but not growth</li> <li>•Business model is functioning and focus is on expansion into new geographies or product/ service offerings</li> <li>•Organization has implemented some systems to build organizational capacity to scale</li> <li>•Company has built up consumer demand</li> </ul>	<ul style="list-style-type: none"> <li>•Company is profitable</li> <li>•Brand is developed and recognizable</li> <li>•Systems, assets and talent are in place or company continues to invest in these areas</li> <li>•Company expands into new geographies or product/ service offerings to capitalize on opportunities</li> <li>•Strategic planning is embedded in the business activities</li> </ul>

This table illustrates the characteristics of social enterprises through the growth stages.

## Identify Enterprises with the Potential to Scale

The Alliance is tapping into its 1,000-member strong partner base for a pipeline of enterprises with the potential to scale. In addition the Alliance will develop partnerships with organizations that work with social enterprises, such as the Sankalp Forum and the Global Social Benefit Incubator, to continue to identify promising new clean cooking businesses.

## Enterprise Capacity Building

Many Alliance partners have strong businesses, but need help with strategic planning and implementing systems that allow them to manage the scaling process. Additionally, many enterprises find it difficult to access resources such as accelerators, mentoring, and help with grant and investor proposals. Capacity building opportunities will be tailored to enterprises at different stages of development and will range from webinars and online materials available to all Alliance partners, to a pre-accelerator program to help local entrepreneurs with basic business planning and financial management skills, to the Capacity Building Facility that funds capacity building services when coupled with committed growth financing.

## Supporting Innovation and Inclusive Value Chains

Innovations are needed across the value chain – from product design to technology improvement to consumer finance. However, few funders take risks on unproven innovations, and investors do not often fund research and development without a ready-made market for the innovation. Grant investments are needed to develop better technologies and business models appropriate to the local context, and improve the fragmented value chains in many markets. Innovation grants can be instrumental in moving the sector forward by supporting proof of concept for potentially game-changing ideas and sharing lessons learned from both successful and failed innovations. In 2012, the Alliance released the Pilot Innovation Fund (PIF) to finance innovative approaches designed to strengthen supply and enhance demand for clean cookstoves and fuels. Under the PIF, grants of up to \$75K are awarded to enterprises at any stage of development. In return for seed capital to finance and pilot these innovations, recipients are required to document lessons learned and share their results to advance awareness of scalable solutions in the sector.

Women play a crucial role in the widespread adoption and use of clean cooking solutions because of their central responsibility for cooking and managing household energy. However, gender-sensitive approaches are not always applied in the sector because of a lack of understanding, practical tools, and financing to effectively mainstream gender throughout business models. In 2013, the Alliance launched the Women's Empowerment Fund (WEF) to encourage partners to test innovative approaches that empower women and address gender issues that can later be scaled if proven effective. Partners can apply to WEF to test and implement the best practices at each stage of the value chain.

## Smart Grants to Bridge the Pioneer Gap

Few impact investors are prepared to provide money and technical assistance to early stage companies, preferring instead to invest once commercial viability has been established. Grant investments are needed to reduce the risk to investors and bridge the pioneer gap – the dearth of impact investors willing to invest in early stage businesses. In 2012 the Alliance launched the Spark Fund – a grant facility designed to help enterprises reach commercial viability and mirror early stage investment scale by funding business capacity development and growth. The Spark Fund aims to invest \$2 million in grant capital annually in enterprises with scalable approaches that have the potential to transform the sector through their success. Spark grants of up to \$500K

target the specific capital and capacity development needs of enterprises across the value chain at the venture and growth stages. Grantees are expected to leverage Spark funding to attract additional capital to fully scale their enterprises.

### Working Capital

A key challenge for many clean cookstoves and fuels businesses is limited access to working capital. Many traditional sources of capital, such as loans or lines of credit from large domestic and international banks, are out of reach for early stage or smaller entrepreneurs who lack sufficient collateral or financial history for a loan. Even if these enterprises are able to secure a commercial loan, interest rates are prohibitively high and therefore restrictive to the organization's growth. A Working Capital Facility is currently being structured with Deutsche Bank's Community Development Finance Group that will deploy working capital loans and loan guarantees to enterprises that are not able to access more traditional forms of debt financing. This facility will make available flexible financing at a concessional yet sustainable interest rate to cover the ongoing operating costs and credit losses of the facility. The Alliance will also partner with local lending institutions, providing guarantees to increase access to working capital financing.

### Engaging Investors to Broker Investment

The Alliance is engaging with the investment community to raise awareness of the opportunities in the sector and broker as many deals as possible for clean cookstoves and fuels businesses. This engagement includes attending selected impact investor fora and showcasing profitable investments in the clean cooking sector. In addition the Alliance has created a searchable database of impact investors interested in energy and the environment in order to connect our private sector partners with investors.



Credit: Jen Tweedell



Credit: Global Alliance for Clean Cookstoves

