

SNV Kenya/Netherlands Development Organisation Kenya Market-led Dairy Programme Phase II (KMDP-II) Innovation and Investment Fund Criteria and Guidelines for Applicants

1. SNV

SNV Netherlands Development Organisation (SNV) is an international not-for-profit development organisation that provides capacity development services to nearly 2,500 organisations in over 36 countries worldwide. In agriculture, SNV engages with stakeholders at different levels in agricultural value chains with the objective to support sector development and competitiveness, and the inclusion of small and medium-sized farmers and SMEs. In Kenya, SNV focuses on horticulture, extensive livestock and dairy. It also runs programmes in water & sanitation and renewable energy. In the dairy sector SNV Kenya is implementing the Kenya Market-led Dairy Programme (KMDP).

2. KMDP

The Kenya Market-led Dairy Programme Phase (KMDP) is funded by the Embassy of the Kingdom of the Netherlands. Phase I of the programme (KMDP-I) started 1st July 2012 and ends 31st December 2016. Phase II (KMDP-II) runs from 1st October 2016 till 1st July 2019. The period October-December 2016 is a transition phase. The overall goal of KMDP-I and II is to contribute to the development of a competitive, market-driven and private sector-led Kenyan dairy sector, with beneficiaries across the value chain. Enhanced competitiveness is defined as being the result of the combination of cost price of raw milk (productivity), efficient milk collection, processing and marketing, quality of milk and dairy products, and level playing field and effective competition in the market.

In KMDP-I, one of the key strategies to achieve this goal was to develop linkages with the Dutch dairy sector, consisting of private sector (B2B), Private Sector Development programmes funded by the Dutch government (e.g. FDOV, PUM, DGGF) and knowledge institutes (e.g. Dutch Agricultural Colleges, WUR and NUFFIC NICHE), in order to promote and achieve knowledge exchange and induce innovation. KMDP-I showed that the Kenyan dairy industry needs to further innovate and adopt international best practice, in order to enhance competitiveness and to enter into a sustainable growth path. The Dutch dairy sector has valuable knowledge and technology solutions to offer, provided these are adapted to local needs and affordable. This strategy is aligned with the “from-aid to-trade-agenda” of the Embassy of the Kingdom of the Netherlands (EKN) in Nairobi, and became prominent during implementation of KMDP-I. Amongst others, in KMDP this strategy is facilitated by an Innovation Fund administered by SNV, which provides co-funding for feasibility studies, pilot or demonstration projects, and business proposals all geared to exposing the Kenyan dairy sector to new products, services and business models.

KMDP-II is a continuation of the current KMDP-I project. The project is designed along two interrelated and mutually reinforcing pillars. Pillar-I is more dairy or market development related, with a focus on intensifying and upscaling the most relevant interventions under KMDP-I, i.e. knowledge transfer and practical skills training & extension infrastructure, feed & fodder supply, milk quality and inclusive dairy value chains. Thereby deepening involvement and engagement of Dutch experts and input and service

providers. Pillar-II will focus on business brokering, innovation and trade promotion related interventions, in close collaboration with the Netherlands Business Hub based in Nairobi and Dutch organisations/agencies that represent the dairy sector in the Netherlands.

Through these two pillars, KMDP-II will invest in enhancing professionalism and competitiveness of the Kenyan dairy sector and in doing so, the market for Dutch technology and expertise, whilst at the same time it facilitates and supports the Dutch private sector to develop business models that are inclusive and relevant for the Kenyan market.

In KMDP-II the project goal is therefore more specifically defined as “to contribute to an improved business and investment climate of the Kenyan dairy sector, by promoting and facilitating private sector collaboration between Kenyan and Dutch dairy sector for enhanced trade, exchange of knowledge, skills development and technological innovation and adaptation to fit the needs of the market”. The transitioning from aid-to-trade relations in the dairy sector, is used by KMDP-II as the overriding strategy for increased sector growth and competitiveness, and for achieving food security and safety.

To support and facilitate this, KMDP-II has an Innovation and Investment Fund (hereinafter referred to as the “Fund”), for which the charter with guidelines and criteria is presented below. This charter is similar to the charter of KMDP-I’s Innovation Fund. The size of the Fund is EUR 650,000.

3. Positioning of the Fund

The Fund will not be positioned as a sector-wide Challenge Fund through a call for proposals, but follows a targeted approach:

- a) SNV/KMDP-II encourages applications and proposals from Dutch companies or their representatives in Kenya, and/or from Kenyan companies who wish to collaborate and partner with Dutch investors, technology and/ or knowledge providers. Thereby aiming at innovations and best practice solutions through transfer of knowledge, skills, products and services and – preferably - cross border investments.
- b) The preferred thematic areas are in dairy farm management (including farm economics and farm recording), dairy services and input, supply chain development (including milk quality), feed & fodder, practical skills and knowledge transfer (including commercial dairy advisory services).

The Fund’s Criteria and Guidelines (this document) will be posted on SNV’s website and shall be communicated through the Netherlands Business Hub in Nairobi, the Dutch Dairy Centre and the Dairy Campus in Leeuwarden. These organisations provide wide representation of the Dutch dairy sector in Kenya/East Africa and in the Netherlands, and are requested to communicate the Fund’s Criteria and Guidelines amongst their membership and networks.

Interested parties can request for a condensed version of KMDP-II’s project document by sending an email to ajansen@snvworld.org or cmuchina@snvworld.org

4. Applicant

The following eligibility criteria apply for the applicants to the Fund:

4.1 The applicant (or lead party) shall be a private business enterprise or cooperative active in the dairy value chain or support chain, i.e. service providers and input suppliers.

4.2 The applicant shall be preferably a Dutch company or investor, or its representative in Kenya. On a case by case basis the Fund Manager (SNV Kenya/KMDP) may consider application(s) by a Kenyan

company or investor not (yet) connected to the Dutch private sector, on condition that the project addresses a systemic issue with high potential impact on sector competitiveness, and provided the project has a significant component of Dutch technology or technical advice.

4.3 The applicant must be financially sound and able to pay his own contributions in the project.

4.4 The applicant must have sufficient management capacity to implement the project. Indicators for this are:

- ✓ A clear and logical organizational structure.
- ✓ Adequate financial management systems are in place (such as policies, procedures, audited accounts, qualified staff).
- ✓ Quality of (current) service delivery/product offering.
- ✓ Technical expertise within the organisation as required for the project
- ✓ Managerial expertise for realisation of the project (i.e. a qualified) project manager

The project proposal shall include an analysis of the existing and required knowledge and skills for the successful implementation of the project, and how these will be mobilised from within or from outside the applicant's organisation. This may include international backstopping and training/coaching.

4.5 The project fits within the existing activities and long term strategy of the applicant.

4.6 The applicant shall have a good record and standing in terms of compliance with legal and regulatory requirements, including environmental and social policies. SNV may decide to carry out due diligence for the applicant who shall cooperate freely and pro-actively.

4.7 The applicant is able and willing to share lessons learned at sector level and document these for the benefit of the sector.

5. Project and duration

The following provides guidelines for what is considered an eligible project:

5.1 A project eligible for (co-) funding under the Fund is here defined as (a) (one or more) demonstration event(s) or training(s) (b) a feasibility study, (c) a pilot project, or (d) a business case. A pilot project is applied for to test an innovative product or service and assess technical feasibility, commercial viability and scalability at *the end* of the pilot. A pilot project usually pre-empts a business case. A business case is a project of which it is plausible from the onset that it is commercially viable after the start-up phase, based on pre-market analysis and cash flow projections.

5.2 The project should drive an innovation in terms of a best practice concept, product or service that is proven elsewhere, but is new for Kenya. The preferred thematic areas are as under section 3 (b) above.

5.3 The project request or proposal shall describe the innovative nature of the products/services or concepts promoted and how this will address systemic bottlenecks in the Kenyan dairy sector.

5.4 The applicant shall explain and justify that there is a need and potential market in Kenya for the uptake of the innovation. In case of a demo event, feasibility study or pilot project, the applicant shall at the end of the project/event describe the (potential) route to market. For a business case, the applicant shall provide the financial viability of the project and cash flow after 2-3 years as part of the proposal.

5.5 The project shall be implemented in Kenya.

5.6 The project duration can vary from 1 day (demo event) to 24 months (business case); the end date shall however not exceed 1 March 2019.

6. Project request or proposal

6.1 Short term demos (1 day – 3 months) with a grant contribution below EUR 5,000 require a write-up of no more than 2 pages with well-defined activities, deliverables and budget.

6.2 Demos, feasibility studies and pilots that require an implementation period of 1-6 months and a grant contribution below EUR 10,000, require a more elaborate project document (in free format) with well-defined activities, outputs, outcomes, milestones or deliverables, means of verification, budget and timeline.

6.3 Pilot projects and business cases with an implementation period of 6–24 months and a grant contribution of more than EUR 10,000 need an elaborate project proposal or document (in the provided format of Annex 1) with well-defined activities, outputs, outcomes, milestones or deliverables, means of verification, budget and timeline. For projects under KMDP-II that are a follow-up of pilots implemented under KMDP-I, the applicant can use a free format that builds upon - and borrows from - earlier application and justification of the project under KMDP-I (e.g. as regards to innovation, systemic change, commercial viability).

6.4 The budget for project applications of all project categories (a), (b), (c) and (d) shall cover all the expenditures (investment and recurrent, if and as applicable), and specifies the contribution of the applicant and the requested contribution from the Fund. As a rule of thumb the applicant's own contribution shall be 50% of the total budget, unless a clear justification for a higher grant percentage is proposed by the applicant and agreed upon by the Fund Manager (see also section 8 below).

6.5 The budget shall be realistic, which means amongst others that unit costs must be market-conform and the size and the composition of the budget, hardware (HW) versus technical assistance (TA), shall be in line with the project objectives, activities, scope and expected outputs.

6.6 The risks of the project are well described and the services/business model has been commercially proven elsewhere - outside Kenya. This also implies that the Fund is not open for "experiments" and research proposals.

6.7 The proposal is required to give a description of the potential impact of the project on applicant's own business and the wider sector, based on the presumption that the project if feasible and will be scaled-up by the applicant, or replicated by other stakeholders in the dairy sector. The description of (potential) impact should look at the following indicators:

- Impact on sector competitiveness and how it promotes best practice and/or systemic change.
- The business operations and profitability of the applicant.
- Employment creation and transfer of skills in the applicant's business enterprise.
- Employment/income creation, knowledge transfer, enhanced access to quality goods and services in applicant's upstream and downstream value chain (suppliers and buyers).
- Replicability and scalability of the project by other business in the sector.
- Impact on nutrition.
- Impact on women and youth.
- Impact on the environment.
- Impact and contribution to the from aid-to-trade agenda

7. Grant contribution and budget-items eligible for co-funding

7.1 Guidelines for the maximum grant contribution are as below. Whether a project application qualifies for either of these 4 categories is up to the applicant to justify. A decision on the same is the discretion of the Fund Manager, who will be guided by the criteria mentioned below and the size of applicants' own contribution and – thus – the leverage created through the project from the private sector.

- a) Up to a maximum grant of **EUR 25,000**: projects covering a period up to 12 months and mainly concerned with demonstrating and piloting new products/services to assess scalability and commercial viability (this concerns mainly feasibility studies and pilots). The pilot informs the applicant and the sector regarding the commercial viability of developing a business case
- b) Up to a maximum grant of **EUR 50,000**: projects with a project period of up to 12 months mainly concerned with hardware investments and limited TA.
- c) Up to maximum grant of **EUR 75,000**: projects with a duration of 18-24 months, with a high content of local knowledge transfer and/or institutional development, but mainly limited to the applicant's own business case/model.
- d) Up to maximum grant of **EUR 100,000**: projects covering 18-24 months with high level of knowledge transfer beyond the immediate business operations of the applicant, significant smallholder inclusiveness, and high potential for systemic change and policy influencing.

7.2 The Fund shall only co-finance that part of the budget that consists of:

- a) Hardware (HW): equipment and machinery, including costs related to the transport, shipment, clearance and installation of the HW.
- b) Technical Assistance (TA): e.g. costs related to key project staff, including project management, for the duration of the project, a feasibility study as part of the project proposal, training and advisory services for the project key staff and or the project clients, laboratory testing of products and inputs, product certification and accreditation, documentation for sharing and learning.

7.3 The Fund shall not co-finance investments in land. Investments in buildings shall only be considered if crucial for the project and dedicated to the project interventions (e.g. laboratory for milk testing). Operational/recurrent expenditures such as routine labour, energy, water and other general inputs are non-fundable by the Fund.

7.4 The applicant is required to clearly indicate in the financial plan the budget items that are eligible for co-funding (HW and TA) and the division of funding between the applicant and the Fund for these budget items.

8. Contribution by the Fund and the applicant

8.1 As a rule of thumb co-funding by the Fund will no more than 50% of the total budget for investments in hardware, technical assistance, project management and staff, with the maximum grant contribution as specified in the project categories in section 7.1. In certain cases the Fund Manager may decide to co-fund a higher percentage, for example in cases where there is a large element of training, backstopping and/or documentation for sector learning and sharing (evidence based policy making).

8.2 SNV/KMDP may decide to co-finance hardware (HW) only, if the technical assistance (TA) required by the project is secured through other ways and means, and depending on the level of innovation, the risk profile and the potential impact of the project. In case the applicant requests for co-financing of hardware items only, he/she shall make clear which TA is required for the proper implementation of the project and how this will be sourced and financed by the applicant or by third parties.

8.3 Applicant's contribution shall be generally in cash, but on a case by case basis and if well justified the Fund Manager may accept in-kind contributions as part of the own-contribution of the applicant.

8.4 The applicant is allowed to bring in co-financing by third parties as own contribution. If this co-funding is derived from grants or subsidies from other development partners or government (except Dutch government). This will however not exceed 25% of applicant's own contribution.

9. Fund management

9.1 Fund management is mandated by the donor EKN to SNV Kenya. Fund management includes (a) screening, assessment, selection or rejection of proposals, and (b) contracting, monitoring and administering project implementation as per the contract. The latter is delegated by SNV Kenya to the KMDP Teamleader. The former is the task of the Fund Manager (SNV Kenya) through the Project Selection Committee (PSC).

9.2 The PSC is composed of SNV Kenya's Country Director, the Agricultural Sector Leader and the Finance Officer. The KMDP Teamleader is the Secretariat of the PSC and has only an advisory role and no "voting rights". For grant applications exceeding an amount of EUR 10,000, the PSC will involve the Project Advisory Committee (PAC) which is composed of at least 2 external experts appointed by SNV Kenya and knowledgeable in the subject matter. The functions and mandate of the PSC and the PAC are governed by a Terms of Reference.

9.3 Decisions and recommendations by the PSC for projects above EUR 10,000 are communicated to the donor EKN for feedback.

9.4 Reasons for rejection of a proposal will be communicated in writing to the applicant. Decisions of the PSC are final and binding and not open for appeal.

10. Contractual arrangements

Co-funding of project proposals over and above EUR 5,000 shall be formalized by an Assignment Agreement or Contract between SNV Kenya and the applicant, which stipulates amongst others:

- The total contribution by the Fund and by the applicant.
- The roles and responsibilities of the contracting parties.
- The expected outputs and deliverables of the project.
- The timeline for implementation.
- The monitoring & reporting requirements, incl. the milestones for disbursement of funds.
- The procedures for disbursement of funds and mode of payment by SNV Kenya.
- The ownership of the assets purchased through the project.
- Reasons for early termination of the Agreement or the Contract if applicable.
- Other terms and conditions as deemed fit and appropriate by SNV Kenya for release and use of funds and project management.

KMDP-II Innovation and Investment Fund Format for Project Write-Up

1. Summary	
1.1 Title of the proposal	
1.2 Objective	
1.3 Project start and end date	
1.4 Name applicant and legal status	
1.5 Applicant address, email, phone number	
1.6 Name contact person, email and phone number	
1.7 Bank details	
1.8 Total project budget	
1.9 Requested contribution KMDP-II	
1.10 Own contribution of applicant	
1.11 Authorized for applicant to submit and sign this proposal and request for funds (by signing this document applicant also declares to be aware and in agreement that decisions of the Project Selection Committee are binding)	Name: Designation: Place: Date: Signature:

2. Applicant information

2.1 Name applicant	
2.2 Legal status	
2.3 Certificate of registration	Add as Annex 1
2.4 Ownership structure	Main shareholders
2.5 Core business	
2.6 Other profit centres (if applicable)	
2.7 Year of registration	
2.8 Organisational structure	Add organogram as Annex 2
2.9 Number of staff/employees	
2.10 Financial position	Give indicators of financial position and viability of applicant's enterprise (e.g. turnover, assets and profits for the last 2 years). If available add copy of recent audited financial accounts as Annex 3. This is to ascertain that the applicant is able to do its own investments in the project

3. Project information	
3.1 Project title and objective	
3.2 Project thematic area and link to KMDP-II's results framework	
3.3 Location of the project	
3.4 Project products/services	
3.5 Project implementation plan	Present an implementation plan in logical sequence containing the project's main activities and sub-activities.
3.6 Project results or targets	Depending on the type of project, present targets for: <ul style="list-style-type: none"> • production volume and turnover • increased efficiency/productivity • number of suppliers or buyers/consumers reached • others
3.7 Time line/planning of activities	Make a time line or Gantt chart for the implementation plan and the activities and sub-activities.
3.8 Innovation	Describe the elements that make this project innovative. For example: (a) new product or production process, (b) a new business model, or (c) introduction of a new technology.
3.9 Market	Describe the market opportunities of the products and services generated through the project.
3.10 Financial plan or budget (add as Annex 4)	<ul style="list-style-type: none"> • Present a financial plan and budget including all cost items and unit prices required for implementation of the project • Make a breakdown of the total budget in HW and TA (50% co-funding by SNV/KMDP) and recurrent costs (100% funding by applicant). • Indicate for the HW and TA the amount and % financed by the applicant and SNV/KMDP. • Describe how the applicant will mobilise his own contribution in the project. • Identify milestones for verification of progress results. • Present a liquidity planning for release of funds of both the applicant and KMDP based on these milestones.
3.11 Commercial viability (for business cases only; add as Annex 5)	<ul style="list-style-type: none"> • Describe how the project will contribute to increased efficiency and profitability of applicant's business operations • Present cost/benefit calculations for the product or service provided by this project, and a prognosis of accrued income for the applicant and other parties in the value chain. • Provide a prognosis for cash flow and income and costs for a period of minimum 3 years and maximum 7 years.
3.12 Technical assistance, training	Describe how the project will assure access to (local and international) knowledge and expertise necessary for the project but not available in-house.
3.13 Risk profile and mitigation measures	Describe the main risk factors in this project and how these will be mitigated.

4. Development impact

4.1 Innovation & systemic change	Describe the innovative elements of this project. Do they address systemic issues in the Kenyan dairy sector and to what extent?
4.2 Scalability and replicability	<ul style="list-style-type: none">• Give a realistic prognosis of the scalability of the project by applicant and timelines for follow up investments.• Give a realistic prognosis of the replicability of the project by others in the (sub-)sector
4.3 Knowledge transfer and skill development	Describe the knowledge transfer and skill-development that will take place in the project, both in-house and in the upstream and downstream supply chain.
4.4 Employment/income (in-house)	<ul style="list-style-type: none">• Number of extra staff employed by the applicant due to the project.• Increased business profitability.
4.5 Employment/income (spin off)	Describe and quantify employment and income (opportunities) created as spin off by the project in the upstream and downstream supply chain.
4.6 Other impact on buyers and consumers	Describe any other impact of the project on buyers or consumers of the products and services generated by the project (e.g. higher food safety or nutrition through fortified processed milk).
4.7 Nutrition	Describe (if any) the impact of the project on food security and food safety.
4.8 Women and youth	Describe (if any) the anticipated impact on women and youth in terms of employment, income, knowledge.
4.9 Environment	Describe (if any) the anticipated impact on the environment.
4.10 Project contribution to KMDP-II from aid-to-trade agenda	Describe potential for crowding in/spin-off for other Dutch companies (followers, spillover)