

Session 13: User Financing via Micro Finance Institutions (MFI) and Utility Bills



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Affordability of electricity is clearly a key issue in Sub-Saharan Africa (SSA). High connection fees, in particular, are a main barrier for the many low income households.

Both grid and offgrid electrification schemes are looking for new ways to make connections more affordable. This may include targeted subsidies or a variety of deferred payment options when a connection fee is paid over time, pre-financed directly by the utility/service provider or through cooperation with a microfinance institution. The session discussed various innovative deferred payment schemes, via microfinance institutions and utilities.

Micro Finance Institutions (MFIs) address the gap between the high initial capital cost of a new electricity connection and low capacity to pay of typical SSA households. MFIs are usually private sector entities with specific visions and business approaches. They have experience in developing networks in regions with weak infrastructure and low incomes. Typically, MFIs provide capital loans to urban or rural small and medium enterprises (SMEs), but they can also finance electricity connections for SMEs as well as households. MFIs are particularly involved in offgrid electrification, e.g., offering loans for solar home systems.

From end user perspective, two business models are relevant for microfinance and off-grid energy:

- The One-Hand-Model/One-Stop-Shop Model is based on a single micro-energy provider who provides the services of an MFI and an energy service company. This model ensures microfinance (various financing options), installation (solar home and other micro-energy systems) and maintenance. This model has been implemented in Bangladesh. Favorable regulatory framework, standardized products, knowledge of microfinance at the managerial level and engineering at the operational level has ensured the success of the model in Bangladesh.
- The Two-Hand-Model/Multiple Stakeholder Model includes cooperation between two separate companies: the MFI and an energy service company. The MFI provides various financing options while the energy company provides system integration, installation and maintenance. A strong partnership among the entities involved is required. This model has been implemented in Sri Lanka, amongst others. Shell Solar was involved in the initial phase of the SHS installations.

About 20-30 MFIs worldwide offer specialized energy loans. Only 5-8 of these have a presence in SSA. Micro Energy International's experience in Africa shows that microfinance is advancing because important banks such as Eco Bank and Equity Bank are getting involved in microfinance. However, microfinance is still underdeveloped in terms of outreach, infrastructure, sustainability, product diversification, and human resources. For example, MFIs have strong networks in Uganda and Kenya but they are still underdeveloped in many other countries, including Tanzania and Burundi.

Specific strategies for the poor and the very poor need to be developed for urban, peri-urban and rural areas, for crowded and informal slums and for remote areas with highly disbursed households. MFIs need incentives especially to develop rural programs, to address the high transaction costs and low user densities. Formal participation in an electrification program with explicit compensation can provide such an incentive.

The experience of FINCA Uganda and PRET Tanzania highlights common challenges and lessons learned. The financing needs for energy products are significant (especially for renewables) and require longer-term lending instruments. Public awareness, training on the use of technology, quality assurance for equipment and service are important elements of the MFIs' strategy and outreach. MFIs often lack the technical knowledge to assess electricity needs. The partnership among sector stakeholders needs to be innovative and "win-win" for all parties. Smart subsidies can help catalyze access to clean energy to those that need it most.

The utility pre-finance scheme is another model for increasing affordability of connections, used particularly in grid electrification.

In Kenya, KPLC, the national distribution company, has designed a number of approaches to increase affordability of connections. KPLC has initiated a partnership with a financial institution (Equity Bank), offering jointly "Stima" loans for electricity connections. Stima loans target customers within a transformer radius of 600m. Customers pay 20% upfront and the balance in 12, 24 or 36 months; the annual interest rate is 15%. For customers beyond the 600m radius, KPLC offers "group schemes" which encourage customers in peri-urban and rural areas to apply jointly, thereby reducing individual connection fees. These schemes are an important step in increasing affordability, but they are not available to all customers. Therefore, KPLC is preparing a launch of a more comprehensive deferred payment scheme (a pilot is being financed by AFD), which would allow all customers to pay connection fees over time, as a part of the electricity invoice. Customers pay 50% upfront and the balance over 12 or 24 months; the interest rate charged to these new customers is set at 0%.

In Ethiopia, a deferred payment scheme is already offered by EEPCo, a state owned national utility, but a new scheme, using output based aid (OBA), is under development with the objective of making connections even more affordable. The OBA scheme would help EEPCo to finance the connection costs of poor customers in rural areas, thereby increasing the connectivity in rural electrification schemes. The proposed project would provide five-year loans to poor strata of the population who get connected to the electricity

grid; and each new customer receives two energy efficient Compact Fluorescent Lamps (CFLs), to promote energy conservation and reduce electricity bills. A credible monitoring and verification system needs to be in place to ensure that the project really targets the poor. At the same time, the operation should be as simple as possible to minimize transaction costs.

Emerging lessons from micro- and user-finance stress the importance of a good legal framework, as well as the experience and knowhow for recovering funds in case of loan failure. Therefore, formal partnerships with experienced MFIs are important. Financial institutions will be reluctant to provide loans unless there is a clear and enforceable legal remedy in the event of sustained non-payment. Similarly, for the utility-managed deferred payment schemes, utilities require a (readily enforceable) legal framework which allows them to disconnect customers who fail to pay their connection fee installments.

MFIs are service oriented and can contribute to quality assurance and consumer protection. Since MFIs are interested in their loan repayments, they also have a vested interest in promoting good quality and sustainability of the products and services that they finance – e.g. solar home systems. Hence, they can be attractive partners for the implementation of consumer protection and certification strategies.

The Namibia experience shows that inter-sectoral cooperation and coordination is an important success factor. The electrification stakeholders have regularly invited the MFIs and stakeholders from the agriculture and telecommunications sector to their discussions and workshops to involve them in planning and implementations as much as possible. There are also interesting opportunities to institutionalize energy solutions within housing programs (UN Habitat).

Approaches differ from case to case. There is a need to share experiences and transfer lessons learned from East to West Africa on micro- and other forms of user finance for electricity connections.

Presentations:

Issues and Options for different technologies and institutional models. Noara Kebir, Microenergy International.

MFI in Africa. Felistas Coutinho, Microenergy International.

MFI Finca Uganda. Patricia Kawaga, FINCA.

Innovative financing for grid connections by the utility. Ato Shiferaw, EEPCo.

Enhancing Affordability – Deferred Payment Methods. Shahid Mohammad, General Manager, Operations. KPLC.