

GLOBAL VILLAGE ENERGY PARTNERSHIP

Harnessing Energy for Poverty Reduction: People, Productivity and Partnerships

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**Proceedings for the
Global Village Energy Partnership (GVEP)
Workshop on Consumer Lending and
Microfinance to Expand Access to Energy
Services**

Manila, Philippines, May 19-21, 2004



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Executive Summary

1. Based on discussions with private firms, entrepreneurs, and consumer groups, it is evident that access to affordable loans on the consumer side is a major hurdle in increasing access to energy services as a means for poverty reduction. To date, the overwhelming majority of financial support for rural energy applications is local and state government or donor-based. Although these programmes are beneficial, unlocking access to loans for consumers will be essential in engaging the private sector and improving the investment climate for rural energy services.

2. The United Nations Development Programme (UNDP), in collaboration with Development Bank of Philippines and the Centre for Agriculture and Rural Development (CARD) Bank in the Philippines, organised a three-day GVEP workshop on Consumer Lending and Microfinance to Expand Access to Energy Services. The event took place from 19-21 May, 2004 in Manila, the Philippines, and included two days of plenary sessions, and a one day field visit to the CARD Bank Training Centre. The workshop was funded by UNDP, U.S. Agency for International Development, the Gesellschaft für Technische Zusammenarbeit (GTZ), and the World Bank/UNDP Energy Sector Management Assistance Programme.

3. Nearly 50 practitioners from Asia, Latin America, and Africa from both the energy and financial sectors gathered to develop design elements for increasing access to consumer loans and microfinance for energy services and identify existing barriers and innovative models within consumer finance that could be appropriate for the provision of energy services.

4. Microfinance practitioners acknowledged that energy services can provide a new, profitable product line for MFIs, and a number of them expressed interest in exploring this market by offering financial products specifically designed for energy. Participants agreed that energy services must match consumers' income flows, be demand driven and be affordable. Productive uses of energy services were seen as a vital component of loans to first time borrowers. It was agreed that in most cases, energy markets need to grow on their own strength rather than through the use of subsidies. However, it was acknowledged that subsidies have a niche if they are time-bound and designed appropriately. Ingredients for successful energy lending programmes include: improved financial capacity among lenders, adherence to best practices, solid energy service providers that include operation and maintenance of equipment, minimal deviation from existing bank policies and procedures, and increased awareness of energy products among key MFI personnel. Additionally, there is a need to match loan amounts to funding sources. Participants suggested that certain energy loans are too large for MFIs. It was determined that a knowledge gap exists between MFIs, consumers and

energy service providers that could be addressed through capacity building, knowledge sharing, and piloting of new approaches for energy and consumer lending.

5. Furthermore, strategies for future action for the GVEP and its partners and stakeholders were proposed, the essence of which is outlined in these proceedings. As a global partnership, GVEP is in a unique position to offer a broad range of services and resources to help encourage the use of consumer lending as a vehicle to promote access to modern energy services for poverty reduction. This workshop helped form the foundation for what will become a comprehensive set of robust strategies and tools aimed at assisting microfinance institutions to expand their existing lending portfolios to include financial products designed for the provision of energy services.

1

Workshop Overview

1.1 The United Nations Development Programme (UNDP), in collaboration with Development Bank of Philippines and the Centre for Agriculture and Rural Development (CARD) Bank in the Philippines, organized a three-day Global Village Energy Partnership (GVEP) workshop on Consumer Lending and Microfinance to Expand Access to Energy Services. The event took place from 19-21 May, 2004 in Manila, the Philippines, and included two days of plenary sessions, and a one day field visit to the CARD Bank Training Centre. The workshop was funded by UNDP, U.S. Agency for International Development, the German Development Agency GTZ, and the World Bank/UNDP Energy Sector Management Assistance Programme.

1.2 Nearly 50 practitioners from Asia, Latin America, and Africa from both the energy and financial sectors gathered in Manila to discuss design elements for increasing access to consumer loans and microfinance for energy services. The workshop confirmed that access to modern energy services can be enhanced by access to consumer credit and microfinance, and there is a strong willingness to work together towards reducing poverty through increasing incomes, jobs and quality of life.

1.3 Microfinance practitioners acknowledged that energy services can provide a new, profitable product line for microfinance institutions (MFIs), and a number of them expressed interest in exploring this market by offering financial products specifically designed for energy. Both energy and financial practitioners agreed that lending for energy targeted at consumers is currently lacking, and expansion of this service could play an integral role in promoting widespread provision of modern energy services. Consensus was reached that lending for energy services must match consumers' income flows, be demand driven, and be affordable. In response to this, it was stressed that a broad range of technologies currently exist that match consumers' energy needs and incomes. Productive uses of energy services were seen as a vital component of loans to first time borrowers. It was agreed that in most cases, energy markets need to grow on their own strength rather than through the use of subsidies. However, it was acknowledged that subsidies can be useful if they are time-bound and designed appropriately. All participants acknowledged that a clear knowledge gap exists between MFIs, consumers and energy suppliers.

2 Proceedings for the GVEP Workshop on Consumer Lending and Microfinance to Expand Access to Energy Services

1.4 GVEP has the potential to act as a bridge between MFIs and the energy enterprises and service providers. GVEP could also provide risk mitigation or sharing facilities for MFIs, MFI business planning and product piloting, and help link MFI issues into GVEP country action plan, PRSP and other activities. Furthermore, capacity building programmes will help bridge the knowledge gap that exists between MFIs and energy suppliers. The Partnership can act as a convenor of MFI-energy stakeholders, policy makers, and donors at the national level. Workshop participants proposed that GVEP assist in developing an MFI-Energy Toolbox. This would include step-by-step instructions for MFIs, as well as country specific information on how to expand financial portfolios to include products designed for energy.

1.5 The GVEP workshop on Consumer Lending and Microfinance to Expand Access to Energy Services was seen as a successful first step in incorporating consumer loans for energy into the menu of services provided by microfinance institutions. However, the workshop participants acknowledged that a great deal is required from multiple players before MFIs will have the knowledge, interest and financing required to contribute substantively in providing energy services to the rural poor.

2

Introduction

Welcome Remarks

Mr. Kyo Naka, UNDP Deputy Resident Representative, Philippines

2.1 On behalf of the United Nations Development Programme, Mr. Naka extended a warm welcome to workshop participants. He offered a general explanation of the crucial interplay between energy and poverty reduction, and highlighted UNDP's ongoing commitment to the issues of energy and environment, both internationally and in the Philippines. He also stressed that energy is not an end in itself but a tool to promote sustainable development and achieve the Millennium Development Goals.

2.2 Mr. Naka explained that UNDP supports energy activities through global, regional, and country-level projects and programmes, and UNDP's highest priority on energy is the implementation of GVEP. He highlighted local success stories in which UNDP has played an integral role in identifying and removing key market, policy, technical and financial barriers to promoting the provision of modern energy services. This includes UNDP's involvement in the "Palawan Alternative Rural Energy and Livelihood Support Project, and the UNDP/GEF Small Grants Programme in the Philippines. Furthermore, ongoing activities in the Philippines are working to increase outreach of breakthrough microfinance organisations. Mr. Naka underscored the importance of increased availability of loans to consumers and microfinance to pay for energy services, confirming UNDP's support for the workshop.

Opening Statement

Mr. Simon R. Paterno, President and CEO, Development Bank of the Philippines (DBP)

2.3 Mr. Paterno welcomed workshop participants on behalf of the Development Bank of the Philippines (DBP). He provided a brief overview of the DBP, stating that his Bank provides financial services to many economic sectors including transport, communication, health, and education. Additionally, the power and energy sector is an area of concern for DBP. He stressed that although significant efforts have already been made, there are still many un-electrified villages in remote areas of the Philippines. He expressed a commitment that renewable energy technologies will be harnessed to improve quality of life in the rural areas by increasing electrification of households from existing levels. DBP further aims to provide affordable energy services by increasing efficiency of electric cooperatives, offering financial resources and enhancing the use of microcredit for energy services. Micro-lending programmes must therefore be designed to suit the needs of local consumers.

2.4 He challenged workshop participants on the issue of sustainability by emphasising that all programmes must be sustainable and must balance affordability and risk-return trade offs. He cautioned the participants that subsidies can create artificial incentives. Mr. Paterno closed his remarks by congratulating the organisers of the workshop.

Meeting Goals, Objectives and Structure

Ms. Judy Siegel, GVEP Technical Secretariat Programme Coordinator

2.5 Ms. Siegel began by briefly outlining the Global Village Energy Partnership. GVEP was launched officially in August 2002 at the Johannesburg World Summit on Sustainable Development. She explained that GVEP is one approach to accelerate the pace and scope of energy activities in a more coordinated fashion to reach the target of improving access to energy services for an additional 400 million people, mainly living in rural areas, by 2015. GVEP has more than 300 partners, with a 13-member partner board and a 5-person technical secretariat. Partners include government agencies, NGOs and the private sector. GVEP activities fall under five service lines: action planning, capacity development, funding facilitation, knowledge management and monitoring and evaluation.

2.6 Ms. Siegel then spoke more specifically about the workshop, its goals, objectives and structure. She stressed that the purpose of the workshop is to document different approaches that would be appropriate to finance energy services, with emphasis

on increasing consumers' purchasing power. Lastly, Ms. Siegel outlined the schedule and structure for the event, as explained in the workshop agenda included in Appendix I.

3

Summary of Panel Discussions

Panel I: the Potential Role of Microfinance to Expand Access to Energy Services

3.1 Harish Hande from the Solar Electric Light Company in India gave the keynote address to introduce the topic of energy services for poverty alleviation and the potential role of microfinance and consumer lending. His presentation was based on an “Issues and Options” paper, which he wrote in collaboration with Kamal Kapadia of the University of California, Berkeley. Included in Appendix II of this document, this paper set the stage for the workshop and provided key points for discussion. The challenges of providing modern energy services to the poor can be divided into issues associated with access, affordability and availability. Mr. Hande asserted that poor people must have access to modern energy services if global poverty and inequality are ever to be reduced. Energy services are an essential ingredient for socio-economic development and economic growth. Mr. Hande provided a compelling case for the potential role of microfinance in expanding access to energy services.

3.2 In considering this, Mr. Hande stressed the need to understand and meet the demands of the consumer. Modern energy does not just mean electricity, but instead the services that it offers such as lighting, heating, clean water, telecommunications, and others. A diverse set of technology options need to be considered in the provision of energy services. Energy needs vary substantially between members of a community. Consumer incomes vary, and may be seasonal or intermittent, as is the case in the agriculture sector. Mr. Hande also pointed out that the poor spend more proportionately on energy services than the rich. These differences must be considered when designing financial products for the purchase of energy services.

3.3 Questions or challenges that Mr. Hande posed to workshop participants include:

- How can we design and implement programmes that can build on existing consumer lending and microfinance infrastructure and capacity?
- What policies are needed to promote rural lending?
- How can risk be minimized for the microfinance institutions and energy services providers?

- How should lines of credit be designed and operated?
- How could we use subsidies and grants more effectively?
- How can we create awareness and disseminate information about potential ways to approach consumer lending for energy services?

Discussion Highlights

1. Direct subsidies can create inappropriate incentives and are not sustainable. The issue is whether subsidies can be reworked for microfinance such that the programmes are sustainable and market-driven for the supply and demand sides.
2. A network of service providers must be created which assures penetration into rural markets so that the poor can benefit from microfinance. It was pointed out that incomes are low but that the incomes are predictable so that appropriate finance products can be designed.
3. The target group of microfinance must be defined; who are the poor to be targeted? Without identifying this, we have no way of measuring results.
4. Who benefits from microfinance? Is it really the poorest of the poor, or does it benefit a higher socio-economic class? It was suggested that any service provider, in order to be successful, must create a network so that people can be reached. Energy service providers need to look at the product, vis-a vis the client, and products should be tailor-made depending on clients' needs and ability to pay. There should be flexibility among service providers as well as to the financing institutions.
5. Most microfinance institutions develop their products based on demand. If demand is lacking, loan products for energy services will not be developed. Supply as well as reliability of energy providers is critical to ensure long-lasting partnerships.

Panel II: Energy Challenges Facing the Consumer

3.4 This session offered a closer look at challenges associated with linking energy services with microfinance. It was moderated by Douglas Banks of Rural Area Power Solutions. Presentations were provided by Mark Hankins from Energy for Sustainable Development, Bikash Pandey from Winrock International and Ivan Azurdia of Fundacion Solar.

3.5 The presentations demonstrated that experience of using microfinance as a means to enhance access to energy services has been met with varying success around the world. As evidenced by Mark Hankins' presentation, in East Africa, most experiences to date have failed. He stressed the need to look at the continuum of consumers, energy service providers, and financiers to be able to tackle energy and consumer lending effectively.

3.6 Winrock International is involved in introducing microfinance into a successful programme in Nepal that combines subsidies and private sector loans to

promote the delivery of family biogas units. The Nepal Biogas Partnership (BSP) programme includes a quality control mechanism, providing an annual rating of member companies based on their performance. Mr. Pandey pointed out that sustainability will be enhanced by linking with members of cooperatives (e.g. dairy cooperatives) that have a regular source of income.

3.7 Finally, Mr. Azurdia provided a more general perspective of current challenges surrounding energy access and poverty reduction. He emphasised the need to ask the right questions before arriving at a solution. One size does not fit all when it comes to rural energy finance. In other words, financial products have to be tailored to specific types of energy consumers depending on their individual needs and desires. Mr. Azurdia stressed that income generation and employment creation has long-term comparative advantages for people. Each individual's needs and desires will determine the types of technology they will require, which will in turn determine the level of capital needed and the appropriate financial mechanism with which to purchase this technology. He also emphasized that good governance and transparency should be highlighted as well as learning how microfinance can play a role in this complex chain of energy

Discussion Highlights

1. The use of subsidies must be considered on a case by case basis. Subsidies must always be time-bound and targeted. It was pointed out that in certain circumstances, access to energy services should be subsidised, however consumption of energy services should not.
2. Some participants suggested that microfinance should focus on financing productive uses for energy rather than consumptive uses. Furthermore, financial models should be designed with the customer in mind, considering income streams, ability to pay, and individual needs and desires.
3. In many cases, consumers are not aware of the technologies and lending options available to provide needed energy services. Consumer knowledge is a major factor to be considered in designing loan portfolios for energy services, expressing the need for capacity building programmes.
4. GVEP should act as an intermediary between national governments and the energy and financial communities to promote long-term policy reform more conducive to sustaining rural electrification programmes.
5. The role of microfinance institutions and the expectations about what microfinance institutions can and cannot do needs to be better defined. There is a need to marry the two sectors of microfinance and energy. An MFI is always faced with numerous choices. Conditions should be identified providing evidence for why MFIs should choose energy services over sectors such as health or insurance. There is a need to revisit the question of consumer demand.

Panel III: Microfinance from the Consumer's Perspective: what is being done on energy?

3.8 This session provided several excellent success stories on the small body of knowledge that exists on energy and microfinance. The session was moderated by Ivan Azurdia of Fundacion Solar. Presenters included Harriette Amissah-Arthur of Kumasi Institute of Technology and Environment (KITE), Indrani Hettiarachchy of the Sarvodaya Economic Enterprises Development Services (SEEDS), and Joselito S. Almario from the Philippine National Credit Council (NCC).

3.9 KITE presented their experience working in the energy sector in West Africa. In Ghana, although the rural energy sector is quite strong, subsidies play a substantial role in providing loans to the rural poor. For energy products, subsidies can account for up to 60% of costs. However, it was stressed that government will always have a role to play in the provision of modern energy services, and that the private sector cannot accomplish their goals on their own. SEEDS in Sri Lanka provided insight into the innovative credit programmes for the purchase of various energy technologies that they have pioneered. SEEDS' lending activities have provided solar home systems for 30,000 rural households and hydropower systems for 9 villages. Through access to their clients who are mainly low income, agriculture workers they achieved better living standards; the ability to listen to the radio/watching TV; and improved education.

3.10 As communities utilise increasing amounts of modern energy services, small business opportunities and livelihood projects will proliferate, requiring sustained microfinance services. Mr. Almario presented an examination of Philippine national and local policies that could promote microfinance for energy services. Targeted and supply-led subsidies have proliferated in the Philippines; however, programmes are still dominated by market oriented financial and credit policies. Providing an enabling policy environment in which microfinance can operate has been integral to the success of their microfinance sector in the Philippines. Some of the performance standards that they are setting for microfinance institutions include: portfolio quality, efficiency, sustainability, and outreach.

Discussion Highlights

1. Strengthening of microfinance to include expansion of access to energy services should have very clear policy frameworks. It must also be linked with other services such as the provision of clean water, health care or education to be of real benefit to the poor. Methods of integrating microfinance into communities should be culturally specific to assure success.
2. It was emphasised that neither energy nor microfinance can solve all the problems of the poor. There is a need to tailor the technology choice to the client and their ability to pay. One way is to look at the less expensive, more basic technologies for the lower income clients. Also there may be a role for subsidies which can be used and directed to help the poorest of the poor get access to energy services.

3. Consumptive loans are different from microfinance loans. Microfinance loans are intended for projects that improve livelihoods and help the poor earn income. These are small-scale loans compared to consumptive loans. Microfinance for consumption vs. productive uses, and the fine line between them, was an area of great discussion and debate with no clear resolution.
4. Business development services and capacity building help prevent loan defaults.

Panel IV: Uses of Microfinance: experience of practitioners

3.11 The first panel session on the second day of the workshop offered a broad range of perspectives on microfinance from energy and outside the energy sector. Evelyn Stark from the United States Agency for International Development moderated this session. Presentations were provided by Aristotle Alip of Centre for Agriculture and Rural Development (CARD) Bank, Nina Aguas from Citigroup Philippines and H.V. Kumar from Crestar Capital.

3.12 CARD Bank is a recognized leader in microfinance for women in the Philippines. CARD borrows much of their model from the Grameen style of banking, and the organisation includes a host of “mutually reinforcing institutions” that work together to provide a broad range of financial services to landless poor women in rural areas of the Philippines. CARD Bank enjoys a repayment rate of over 99%, and it takes an average of 5-8 years to bring a family out of poverty. CARD Bank also offers collateral services like health education and business development services to their clients. CARD is now looking into ways to offer energy loans among their standard financial products.

3.13 Citigroup Philippines has been highly involved in the microfinance industry recently, mainly in a training capacity. Citigroup views microfinance as a significant business opportunity and if they build capacity it will help to expand their markets in the long-term. Citigroup partnered with MFI-umbrella organisations (like PHILNET in the Philippines) to select middle to senior managers within the MFI sector to engage them in training programmes and help build capacity. The programme is called Citibank Microfinance Management Development Programme, and it has been held in the Philippines, India, China, and New York (in association with Women’s World Banking). Two other courses that were mentioned are Credit & Risk Workshop for Microfinance Institutions and Micro-marketing for Microfinance Institutions.

3.14 UNEP financed a loan programme for solar home systems in Karnataka State, India. They partnered with Canara Bank and Syndicate Bank to increase distribution efficiency of the loans. Over a three-year period, UNEP hopes to assist in the sale of 20,000 to 25,000 solar home systems. Although the loans are currently subsidised, they have a phase-out policy whereby consumers will be paying market price by the end of 3 years. Furthermore, the subsidy only acts to increase availability and not to lower interest rates.

Discussion Highlights

1. The microfinance sector is seeking sustainable, commercial, market or client-oriented and product driven programmes. It must be up to the financial institution to decide where the demand is and then to respond to the market accordingly.
2. Capacity building is very important in strengthening microfinance institutions to effectively address the needs of clients. Market studies provide the fundamental elements to understand business opportunities in a particular country.
3. It was stressed once again that that subsidies are not sustainable, and should be implemented only as a marketing strategy for a set amount of time. It was emphasized that there must be a profitable business venture that has the ability to operate without subsidies that will make the microfinance institutions come onboard with energy products.
4. It was emphasized that priority sector lending to jump start a particular sector, such as energy, usually does not work.

Panel V: Potential Role of Consumer Lending

3.15 The final panel offered a variety of success stories, some dealing specifically with financing for energy, others outlining successful consumer lending programmes not focussed on energy. Mohammed Maarouf from Al Amana moderated this session with presentations from Winnie Imanyara of the Equity Building Society, Andres Urquidi of FIE Fondo Financiero Privado and Wilfredo Billena from the Philippine Rural Electrification Financing Corporation.

3.16 The Equity Building Society in Kenya provided a look into the “mobile banking” centres that are increasing market penetration to rural areas of Kenya. The mobile banking system consists of a travelling bank vehicle from which a full host of financial services are available, allowing the organisation to access the most remote areas of their region. Collateral services such as education and community services are also offered through the mobile units. It was noted that the key to the success and replication is accessibility, simplicity, customer orientation, and the fact that the units are locally run and managed.

3.17 Fondo Financiero Privado is one of the more successful microfinance institutions in Latin America that started as a non-governmental organization and became a regulated institution in 1998. It utilizes an individual loan model and does not engage in group lending. They create branches and strategic alliances with local NGOs, allowing them to increase their impact and mobilize savings. Loans can be used for working capital, housing, or consumption. Their profit margin tends to be in the neighbourhood of 20%, proving that microfinance can be profitable.

3.18 Electric cooperatives in the Philippines are an example of a successful programme to support the energy needs of rural people. The Philippine Rural Electrification Financing Corporation assures a reliable source of financing for electric

cooperatives to perform the needed updates and repairs of existing equipment. They also provide technical and financial assistance to facilitate processing of these loans.

Discussion Highlights

1. There is a need to differentiate microfinance loan from consumer loans. The difference is quite subtle, and should be better defined.
2. There is a need to think about how to link energy with other consumer-oriented loans like housing, appliances, and household systems like wiring.
3. Attention should be given to the potential of over indebtedness of borrowers created by the ability to borrow from more than one lender. One approach is to use regulatory measures to prevent this.
4. Lending secured by collateral has proven to be more successful than lending based on trust, regardless of the nature of the relationship between the client and bank personnel.

Roundtable Discussion Summaries

3.19 At the end of the second day, participants were broken into three groups and assigned a topic for more detailed discussion and debate. Each group was posed with a unique set of questions to help direct the discussion. Although each set of questions offered a unique starting point, results from each breakout group were quite consistent with one another, reinforcing the validity of their findings. Results of each breakout group were presented and discussed with the entire group. Findings from these small group discussions are summarised below.

Topic one: Identifying Ways to Integrate Energy into Existing Consumer Lending Approaches. Moderated by Charles Nalyaali, Uganda Micro-Finance Union.

3.20 Group one examined different ways existing microfinance programmes could be expanded to include energy.

- **Market research** – Market research was identified as a crucial first step in determining the profile of the potential clients and the types of technologies suitable for specific regions / applications. There is a need to demonstrate a viable market to prospective MFIs before they will be willing to expand into this sector. More general marketing is also required, but it was unclear who would perform this marketing. Will it be performed by the energy service provider or the MFI, or a combination of both?
- **Capacity building** - It is crucial to train MFI staff on the basics of the technology so they better understand the products. With better understanding of energy products and services, MFIs would be better equipped to develop new lending products.

- **Loan product design** - The specific design of the loan product will depend on the preferences of the consumer and the local market characteristics. Interest rates should be set at market rate and should include cost of capital, risk, and margin, to assure financial sustainability. In many cases, collateral for the loan will be the energy equipment itself. The loan maturity and repayment frequency will depend upon the preference of the consumer within the parameters offered by the MFI. In addition, warranty and insurance need to be a feature of the loan product.
- **Risk Guarantee** - MFIs need to guarantee the client for the energy service provider and the energy service provider needs to guarantee the client for the MFI. In other words, the risk needs to be shared.

Topic two: Overcoming Barriers to Microfinance for Energy Consumers.
Moderated by Gil Lacson, Women’s World Banking

3.21 Group two attempted to determine why most existing MFIs are not currently funding the provision of energy services. They established several key barriers that help explain this situation.

- **Knowledge gaps** - There exists a knowledge gap between the consumer and MFI with regard to technologies available and costs involved. There is also a disconnect between the microfinance and energy sectors. Microfinance specialists need to better understand energy products and energy specialists must increase their knowledge of financial products.
- **Loan term mismatch** - The microfinance industry tends to prefer short term loans, especially to first time borrowers. However, many energy technologies are relatively capital intensive, requiring larger loans and longer payback periods. Depending on the technology chosen, energy loan sizes can sometimes experience “matching issues.” In these cases they are too large for a typical MFI, but too small for a traditional bank.

3.22 There are a number of concrete steps that the group identified to facilitate MFIs incorporating energy into their standard lending portfolios.

- **Market research** - MFIs need to identify (or create) demand prior to investing money in the creation of specialised loan products. There is also a need to articulate or communicate the relationship between energy and other needs
- **Capacity building** - An understanding of the central role that access to modern energy services plays in poverty alleviation and other development needs (e.g., agriculture, water, and education) is crucial in promoting MFIs to provide loans for energy services and products. Capacity building programmes will help alleviate a number of the information “gaps” described above. Large-scale information campaigns should take place to increase knowledge of energy technologies, their services, costs and limitations among the financial community.

Energy entrepreneurs would benefit from entrepreneurship training on both entry level and second-phase business strategy. Training on risk mitigation and quality control will also play an integral role in bridging these gaps.

- **Risk guarantees** - MFIs need access to credit specifically for the purpose of increasing their loan portfolios to include energy. A risk guarantee mechanism that accounts for technical and financial aspects would help MFIs mitigate risk as they expand their loan portfolios. Partnerships between energy service providers and MFIs can yield beneficial relationships. In this case, energy service providers can perform marketing for financial products and vice versa.
- **Policy reform** - There should be an enabling policy environment that reduces risk and cost of energy distribution. An open and level playing field should exist for generation, transmission, and distribution. The market should be promoted through the use of “smart incentives.”

Topic three: Global Village Energy Partnership. Moderated by Rachel Polestico, Southeast Asia Rural Social Leadership Institute (SEARSOLIN) / Appropriate Technology Center, Xavier University, and GVEP Board Member

3.23 Group three focused on the potential role for GVEP to facilitate access to microfinance for consumers and an elaboration of the elements to be included in GVEP financing services that are targeted at consumers.

3.24 It was noted that GVEP could serve as a repository of methods, designs and plans on energy and microfinance; facilitator of country-level resources for microfinance energy business plans; documenter of good practices and lessons learned; and facilitator of country consultations and workshops with policy makers and various stakeholder. In addition, the existing GVEP service lines could be expanded in a number of ways to help promote the use of innovative financial models within microfinance for energy services as well as create other services.

- **Action plans** – National action plans could be enhanced by including microfinance and consumer lending for energy in national Poverty Reduction Strategy Papers and policy reforms. In addition it could serve as a neutral convenor of multi-stakeholders seeking to pursue energy and microfinance
- **Financing facilitation** – Financing facilitation should be expanded to bridge energy technology with financiers. GVEP should provide the information channels for interested parties to work together. GVEP could initiate the use of carbon financing as a means to supplement funding, using project bundling as a strategy to minimise transaction costs. GVEP could also play an advocacy role with multilateral and regional development banks to increase funding for MFIs funding energy services.

- **Knowledge management** – Knowledge management could also be expanded in various ways. GVEP should facilitate the open sharing of information and best practices, both through increased use of their website and through publications. Additionally, GVEP should link MFI issues into GVEP country action plans, Poverty Reduction Strategy Papers and other activities. This will ensure that a link between microfinance and energy services is emphasised at the level of national governments.
- **Energy-MFI Toolbox** - An “Energy-MFI Toolbox” could be useful in building capacity and sharing knowledge. The Toolbox could include detailed case studies of existing success stories, various outreach material and checklists for MFIs, easing the transition towards funding energy services. The toolbox would encompass a variety of country-level information including local policies and regulations, and a pre-screened list of energy vendors with which to work. The toolbox would include information on both local and global financing options. The toolbox could act both as a bridge to bring MFIs and energy distributors together, and as a repository for successful experiences.

Lunchtime Plenary Summaries

3.25 During lunch on the first day, Francis Donovan from the United States Agency for International Development provided the group with an introduction to USAID-led activities in the Philippines. This included an explanation of the Microenterprise Access to Banking Service (MABS), an innovative programme designed to strengthen the domestic microfinance and microenterprise sectors. The second day lunch session featured a presentation by Herwig Meyer from the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ). Mr. Meyer offered a summary of the Renewables 2004 conference, held in Bonn, Germany in June.

4

Conclusions

4.1 The Consumer Lending and Microfinance workshop offered significant insight into GVEP's potential role in helping microfinance institutions to expand their lending portfolios to include energy products and services. The workshop convened experts from both the energy and financial sectors from Asia, Latin America, and Africa to help determine design elements for increasing access to consumer loans and microfinance for energy services. From the discussions, a number of common themes and recommendations for future action emerged.

Key Workshop Findings

- Confirmed that access to modern energy services can be enhanced with access to consumer lending and microfinance. Energy services can provide a new, profitable product line for MFIs, and there is a willingness from both the MFI and energy sides to work together on this issue.
- Energy services must be demand driven, affordable, and matched with consumer income flows. More research on consumer needs and appropriate products is required. Furthermore, clients may not be aware of the collateral benefits of energy services, particularly related to income generation.
- There are a range of technology options and packages that can meet energy service needs at various energy levels and costs. For example, solar dryers, solar lanterns, solar photovoltaics, cookstoves, LPG, village hydropower, biogas and LED lamps can all play crucial roles in the provision of modern energy services.
- Productive uses and income generation should be a priority. This increases the client's ability to pay back loans and mitigates risk otherwise borne by MFIs, but more importantly leads to economic well-being and improved quality of life. However, it is important to recognise difficulties in separating consumptive aspects of loans from productive, and in some cases, could be an artificial distinction.
- The challenge is matching the target market, energy service provider (technology product), microfinance service provider (financing product), and other funding

sources of the energy chain—in other words, the entire value chain: from consumers, to energy service providers to financiers. We should draw on the strengths of each player in the continuum to maximize impact and use of resources.

- Markets need to grow on their own strengths, not on subsidies. However it is recognised that in certain situations, subsidies may be necessary and appropriate for basic services. When applied, subsidies should be targeted and time-bound.
- Ingredients for successful energy lending programmes include: improved financial capacity among lenders, adherence to best practices, solid vendors that include operation and maintenance of equipment, minimal deviation from existing bank policies and procedures, and increased awareness of energy products among key MFI personnel.
- A knowledge gap exists between MFIs, consumers and energy service providers that could be addressed by capacity building, knowledge sharing, and piloting of new approaches for energy and consumer lending.
- There is a need to match loan amounts to funding sources. MFIs tend to limit the size of their loans, whereas traditional banks often have a floor for loan sizes below which they will not lend. Therefore, depending on the technology chosen, energy loans can be too large for MFIs to fund, but too small to receive bank funding.

Next steps:

GVEP's Role

- Serve as a bridge between MFIs and the energy sector and provide services to bridge the gap.
- Advocate and raise awareness with microfinance institutions and consumers of linkages between energy services and productive uses and energy and development.
- Develop GVEP MFI-Energy Toolbox drawing on existing data and linkages where possible. This will include detailed case studies of existing examples of MFI-rural energy access programmes. It will also include threshold criteria and checklists for energy-MFI projects. Energy options, costs, and outreach materials for MFIs will also assist in raising capacity. The toolbox will include information on MFI financing sources: financiers, and both domestic and global organisations. Country-level MFI policies and regulations need to be outlined. A screened vendor lists at country level will help MFIs identify the most efficient energy service providers with which to work locally.
- Convene MFI-energy stakeholders, policy makers, and donors at the national level and include in GVEP country-level implementation.

- Assist in developing risk mitigation and sharing facilities for energy-MFIs
- Support energy-MFI business planning and product piloting
- Link MFI issues into GVEP country action plans, Poverty Reduction Strategy Papers and other development planning tools.

Other Partners' Roles

- Governments and international financial institutions can create enabling policy and regulatory environments to allow microfinance institutions to operate.
- Bilateral donors can support technical assistance, training, capacity building, and knowledge sharing.
- Private sector players can contribute to development of new financial products, marketing of loans for energy services and products, after service sales and quality control from energy service providers.

Appendix 1

Workshop Agenda

Day 1, Wednesday, May 19th

Introduction 9:00-9:45 Welcome Remarks	Mr. KYO NAKA UNDP Deputy Resident Representative
Opening Statement	Mr. SIMON PATERNO President & Chief Executive Officer Development Bank of the Philippines
Meeting Goals, Objectives and Structure	Ms. JUDY SIEGEL GVEP Technical Secretariat Programme Coordinator
9:45- 10:30 Issues And Options: The Potential Role Of Microfinance To Expand Access To Energy Services Moderator	Mr. HARISH HANDE Chief Executive Officer SELCO Solar Light Pvt.Ltd. (SELCO-India) Mr. Ed Jimenez Bangko Sentral ng Pilipinas
10:30 – 11:00	Coffee Break
11:00 – 12:00 ENERGY CHALLENGES FACING THE CONSUMER 1. Access to Energy Services: Can micro-finance address first cost barriers? 2. Affordability of Energy Services: Can payment regimes be matched to consumer’s income stream?	Mr. MARK HANKINS Energy for Sustainable Development Africa, Kenya Mr. BIKASH PANDEY Winrock International, Nepal Mr. IVAN AZURDIA Fundacion Solar, Guatemala

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3. Availability of Energy Services: Can micro-finance and consumer lending be used to articulate demand & create markets?	
Moderator:	DOUGLAS BANKS Rural Area Power Solutions, South Africa
12:00- 1:00	Comments and Discussion
1:00 –2:00	Lunch (Room: Batanes 2)
United States Agency for International Development’s Activities on Micro-Finance in the Philippines	Mr. FRANCIS DONOVAN United States Agency for International Development
2:00 –3:00 MICROFINANCE FROM THE CONSUMER’S PERSPECTIVE: WHAT IS BEING DONE ON ENERGY?	
1. Microfinance in Ghana: Contributing to Energy Access	Ms. HARRIETTE AMISSAH ARTHUR Kumasi Institute of Technology and Environment, Ghana
2. Example of Microfinance for Consumer Purchases of Energy Services and Systems	Ms. INDRANI HETTIARACHCHY SEEDS, Sri Lanka
3. Microfinance Policy Initiatives in the Philippines	Mr. JOSELITO ALMARIO Philippine National Credit Council (NCC)
Moderator	Mr. IVAN AZURDIA Fundacion Solar, Guatemala
3:00 –4:00	Comments and Discussions
4:00- 4:15	Coffee Break
4:15 –4:45 Wrap up of the day and plans for Day 2	Ms. ELLEN MORIS GVEP Technical Secretariat
5:15	Gather in hotel lobby for group bus to Dinner – Reception at Ilustrado Restaurant
6:30	Dinner –Reception hosted by the Development Bank of the Philippines

Day 2, Thursday, May 20th

8:45 Introduction to Day 2	Mr. KAMAL RIJAL UNDP Thailand
9:00 –10:00 USES OF MICRO-FINANCE: EXPERIENCE OF PRACTITIONERS	