

Sa-Dhan National Conference 2016

Sustaining Clean Energy Access through Microfinance

organized by



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Briefing Note

Access to adequate, affordable, reliable, safe and environmentally friendly energy is crucial to achieving India's Sustainable Development Goals and improving the lives of people who have historically lacked such access. Increasing clean energy access not only improves their domestic standard of living but also significantly improves their livelihood opportunities and therefore their overall quality of life. Last mile end user financing that facilitates access to such technologies is critical in this context with the microfinance industry providing ample potential for partnerships and leverage.

The market for decentralized clean energy continues to grow parallel to the expanding bouquet of centralized services provided by the government. It is therefore critical for the end user to be empowered to access these options and the microfinance industry plays a big role in the same. While the industry should continue to facilitate loans for domestic products like solar lanterns and clean cookstoves, there is a range of products that can be financed for productive, income generating activities like pumps, larger electricity systems to support microenterprises and processing equipment like chillers, incubators, dryers and so on. On the process side, clean energy enterprises can leverage the extensive field network of community agents that MFIs are equipped with in order to achieve last mile outreach as well as after sales servicing including repayment.

Members of the Clean Energy Access Network as well as MFIs with significant experience working with clean energy enterprises will shed light on the latest developments and achievements of the industry in the clean energy access space and deliberate on the future outlook for the same with due consideration given to the changed and changing landscape of microfinance in the country as a whole.

Panellists

Mr Ben Mathew, Sales Director, Greenlight Planet
Mr Bishal Thapa, Program Manager, Arc Finance
Mr Rajeev Palakshappa, IFC
Mr Piyush Mathur, Chief Financial Officer, Simpa Networks
Mr George Thomas, Executive Director, ESAF Microfinance

Key Highlights

The value of networks for service delivery

Bishal Thapa:

- Renewable energy technology hit an inflexion point a few years ago so it is now possible to

distribute on scale. This however leaves the issue of the distribution itself to be answered. The value of a nationwide network that can deliver services cannot be understated. The microfinance network in India is one of the few instances of such widespread, last mile connectivity. This network can be leveraged not just for energy inclusion but for a whole range of services to excluded communities in remote geographies.

- One can argue that 30 GW of electricity that India generates has no takers because there is nobody to deliver the service. On the other hand, there are almost 250 million households that don't have access to electricity. MFIs need to seriously think through their operational strategy to leverage their network and actualize the delivery of energy.

Piyush Mathur

- There is significant overlap between the population that lacks access to energy and that lacks access to finance so it becomes critical to look at the role that MFIs are playing in potentially solving both.
- We bundle microloans for banks and are happy to do the same for MFIs. We can look at partnerships in areas of sales management, revenue collection, customer outreach and relationship management.

Strategies adopted by practitioners for better service delivery

Ben Mathew

- We focus on three key issues to enhance consumer experience as well as foster partnerships with MFIs: **product awareness, product quality and after sales service**. We have multiple models for after sales service and product replacement: direct replacement after customer complaint via call or a visit to a local outlet (which could be near an MFI branch), replacement after customer complaint to MFI branch. We've made it as easy as possible for the loan officer to handle after sales services. Our area managers on the ground also frequent these MFI branches to interact with loan officers.
- We've invested a lot in improving product quality. Our MFI partners are happy with the low defect rate that we guarantee. Since most of our customers are farmers, vendors etc. who spend their day outdoors in rugged environments, we ensure that our products are durable, water resistant and dust resistant.

Piyush Mathur

- We are now going a step further from our Pay As You Go model and now have real time remote monitoring of our systems that reveal patterns in customer behaviour in order for us to build better performing products.

MFI requirements and expectations from practitioners

George Thomas

- Access to the right product and servicing are very important. If these are taken care of, then access to finance will be more forthcoming. Since the MFI branch is the first point of contact for many customers, they will invariably come to the MFI branch if there is something wrong with the product. A partnership between technological competence and customer sensitivity and understanding is required. We are only financing clean energy products to customers who are at least a year old in the livelihood generation portfolio.
- It is very important to communicate technical standards in a user friendly way. These

standards can get quite complicated for the layperson. It is also important to communicate potential savings between the traditional products they use (like candles or torches) and the renewable energy products which require a bigger upfront investment.

(Rajeev Palakshappa)

- This is what IFC has also addressed through the Lighting Asia program and now those standards have been adopted by International Electrotechnical Commission.

The future of collaboration

- *Audience question: Doesn't this sector present an unlimited risk for financial institutions?*
Bishal Thapa: It doesn't because the products come with limited warranties but the MFI sector does present an unlimited service obligation and we should think of delivering energy as one of the many possible services that MFIs can carry. The future will see the emergence of "wireless energy microuilities". With respect to the question of MFIs taking commissions for selling energy products, the sector will mimic what happened in the power sector a few years ago where regulators set a cap on the commission that power traders could make. Similarly, there will be regulation of the trade margins that an MFI can avail.

George Thomas

- Taking some amount of risk is part of any business operation but we have also found that some of these energy services have helped many customers in very remote areas and have therefore proved to be a significant value addition in their lives.
- We have also seen the emergence of microretailers in rural areas who directly sell to energy consumers. This has proved to be a livelihood opportunity leading to the creation of microentrepreneurs.

Ben Mathew

- A lot of MFI customers now have entry level lanterns and want to upgrade to better or bigger products like more lanterns or solar powered televisions or home systems or fans. We've added some of these products to our portfolio like solar powered fans. Pay as you go technologies are also proving to be useful in securing financial viability of a product. MFIs are also expanding their portfolio to look at housing finance etc while we simultaneously look at adding such products to their basket.

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