Global Village Energy Partnership Mobilizes Private and Public Sectors:

Aims to Increase Access to Microfinance for Energy Services

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Energy as a Foundation for Economic Development

Mobil boutique lighted by solar at a rural bus stand in Sri Lanka. (SEEDS, 2005)

Poor people must have access to modern energy services if global poverty and inequality are to be reduced. In itself, energy is of little interest to most people. However, it is the services that energy provides such as lighting, motive power and cooking fuels that are essential ingredients for social and economic development. The primary aim of the Millennium Development Goals (MDGs) is to reduce by half the proportion of people living on less than one dollar a day by 2015, and to substantially enhance the social, economic, political and environmental conditions that make up the reality of these peoples' lives. While no MDG relates directly to energy, access to energy is essential to achieving all of these development goals. As Susan McDade, Manager of the Sustainable Energy Department of the United Nations Development Programme (UNDP) put it during a UN press briefing in November 2004, “Energy with business as usual will not lead to achieving the Millennium Development Goals.”

For example, it would not be possible to supply safe water without energy for pumping or clean fuels for boiling water. Issues of gender equity cannot be resolved if young girls are unable to attend school because they have to collect scarce fuel wood for family subsistence. Relying on such outdated cooking fuels also leads to indoor air pollution, a scenario resulting in approximately 100,000 avoidable deaths per month globally due to respiratory ailments. The provision of health care services should be coupled with modern lighting to enable a safe and clean work environment and refrigeration to preserve vaccines.

Furthermore, productive and income-generating activities are enabled as a result of access to energy services. Farmers can better irrigate arable land that generates saleable crops, for example, or shopkeepers can serve cold drinks and stay open later. Entrepreneurs can earn extra income charging mobile telephone batteries, and fishermen can get their products to market through access to refrigeration. In other words, energy is a central development issue that cuts across all sectors and development topics. Improving access to energy services is therefore not an end in itself but, rather, a critical means to achieve the goals of sustainable development and the MDGs.

Opportunities for Microfinance Institutions

Approximately two billion people, or one-third of humanity, mostly in rural areas of developing countries, lack access to modern energy services. Based on past experience with energy projects as well as 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. However, expenditures among energy consumers on inefficient and low quality fuels are surprisingly high. The Solar Electric Light Fund estimates that on average, families in rural areas of developing countries spend approximately $10 per month on poor quality energy services.

If appropriately designed, loans for energy services offered by microfinance institutions can provide clients with access to high quality modern energy services by closely matching loan payments with existing energy expenditures or income flows. In doing so, such loans can offset the high upfront cost associated with cleaner technologies such as biogas, micro-hydropower, wind, solar, or liquid petroleum gas (LPG). These technologies provide higher quality and safer service, and often lead to increased income. The untapped market of clients that have both a willingness and ability to pay for modern energy services is a unique business opportunity for microfinance institutions.

Linking the Energy and Microfinance Sectors

"In order to develop effective programmes to enable (access to modern energy services), it is essential to have an understanding of the energy consumer's needs, and the issues faced by microfinance agencies and energy service providers in meeting these needs."

- *Harish Hande, Ph.D., Managing Director, Solar Electric Light Company, India*

The Global Village Energy Partnership (see Box 1), with support from UNDP, the United States Agency for International Development, the Deutsche Gesellschaft für Technische Zusammenarbeit and the World Bank/UNDP Energy Sector Management Assistance Programme, organised a workshop in the Philippines in May 2004 on microfinance and consumer lending to expand access to energy services.

Box 1: The Global Village Energy Partnership (GVEP)

GVEP was launched at the UN World Summit on Sustainable Development in 2002. It forges partnerships between developing and industrialized country governments, public and private sector institutions, and multilateral organizations in an effort to ensure energy access to modern energy services by the poor. The Partnership aims to help reduce poverty and enhance economic and social development for millions around the world. GVEP reaches out to other sectors including health, education, agriculture, water, transport, telecommunications and enterprise sectors, and promotes a range of technology solutions to meet their needs. This covers renewable energy, energy efficiency, modern biomass, liquefied petroleum gas (LPG) and cleaner fossil fuels. GVEP is active in 17 countries in Africa and Latin America, and is expanding activities in Asia in 2005. The Partnership has grown to include more than 700 partners worldwide, representing a diverse range of bilateral and multilateral institutions, national governments, financial institutions, NGOs, and private firms. For more information see http://www.gvep.org

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.

Energy and financial practitioners offered a number of recommendations to create efficient and affordable lending windows intended to serve energy consumers. Overwhelmingly, the experts agreed that the cost of energy services must match consumers' income flows, be demand-driven, and be affordable. Additional ingredients for successful energy lending programmes include: partnering with competent energy service providers that offer operation and maintenance of equipment, integrating with existing bank policies and procedures, and increasing awareness of energy products among key MFI personnel. Furthermore, it was evident 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.

Since the workshop in the Philippines, implementation of these proposed strategies has been initiated in an array of regions and organisations. Most recently, the Small Enterprise Education and Promotion Network (SEEP) organised a practitioner learning programme entitled "Microfinance and Consumer Lending to Improve Access to Energy Services in Eastern and Southern Africa." The programme is examining how MFIs can better incorporate loans for energy services into their standard lending portfolios. Three institutions from Tanzania, Uganda and Zimbabwe were chosen through a competitive bidding process to work for one year with a group of experts that will help them introduce energy loan products that closely match consumer income streams, ability to pay, and individual needs and desires. The first meeting of this programme, from which a number of innovative lending models will likely emerge, was held in Nairobi, Kenya, August 22-25, 2005. The results and lessons learned will be well documented, which will help to inform other organisations in Africa and elsewhere interested in pursuing similar endeavours.

Box 2: SEEDS in Sri Lanka

Sarvodaya Economic Enterprise Development Services Guarantee Ltd. (SEEDS) is a Sri Lanka-based microfinance institution that has been in operation since 1986. SEEDS offers a broad range of lending products, including a lending programme that focuses on the provision of environmentally-friendly, clean energy technologies and modern lighting to enable productivity after dark. To increase operational efficiency, SEEDS out-sources services such as sales, marketing, installation and maintenance through strategic partnerships with solar technology suppliers and itself focuses only on financing. Much like automobile sales packages, partner solar energy companies market their products coupled with SEEDS financing packages. The MFI offers after-sales maintenance and service by being highly selective in their choice of partners. Moreover, the use of market studies allows SEEDS to gauge customers' energy needs, expectations of service and lending terms, income patterns, spending patterns, existing energy expenditures and awareness of modern technological options prior to investing heavily in a given market.

Conclusions

Access to modern energy services provides a foundation for economic development. Moreover, people in developing countries are willing and able to pay for energy services, and rural markets are strong if the proper financing mechanisms are in place. Leading microfinance institutions and banks have demonstrated that providing financial services to poor entrepreneurs and households can be efficient, responsive, and profitable. However, the links between energy and microfinance need to be strengthened so that clients can enhance and expand their small enterprises with access to improved and reliable energy services and products. With the large growth in the number of microfinance institutions and the diversity of loan products, it is now time to respond to the demand for energy with flexible loans to build income and assets. This can have broad implications for the diverse group of players involved with energy, poverty reduction, and economic development including donors, financial institutions, intergovernmental organizations, investors, and financial intermediaries.

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