

## Sparking Strong Partnerships: Field Tips from Microfinance Institutions and Energy Companies on Partnering to Expand Access to Energy Services

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One of the major bottlenecks to expanding access to energy services for the poor through microfinance is the lack of coordination between the energy and microfinance sectors. For example, in many cases it is common for a microfinance institution (MFI) and its clients to lack information about the benefits of modern energy. Meanwhile, existing energy products are seldom tailored to meet the needs of low income households. Knowledge gaps such as these illustrate the need for stronger collaboration between actors in both the energy and microfinance sectors.

Successful energy-lending programs begin with the formation of strategic partnerships between one or more groups of stakeholders, including MFIs, self-help groups, energy companies and rural energy enterprises, government agencies, donors, commercial banks, NGOs, and more. The role played by each stakeholder in energy lending – and, more importantly, their understanding of each other’s responsibilities – are crucial determinants for the success of an

energy-lending program. Effective coordination can help leverage the strength and reach of each stakeholder, minimize market distortions, increase efficiency, and help create a strong commercial market for energy lending.

Because of the breadth of stakeholders that can be involved in developing an energy-lending program, partnerships can take many different forms. Such partnerships may range from public-purpose organizations like government agencies or donors partnering with an MFI or energy company, or an MFI partnering directly with an energy company. Partnerships may be as informal as an MFI having a strong relationship with a contact in the government who keeps the MFI abreast of new developments that have the potential to distort the energy services market (i.e. national electricity grid extension or subsidized technology “give away” programs). Or partnerships may be formal and can include end-user subsidies for the cost of equipment, technical assistance to MFIs and/or

energy companies, start-up funding for energy loans, and funding for marketing and product development activities.

Some of the more recent examples of successful energy-lending programs involve a strong partnership between the MFI and energy company<sup>1</sup>. The strength of this partnership largely depends on the internal capacity and core competency of each partner, as well as a clear and mutual understanding of roles and responsibilities. It is important to note upfront that there is no “one size fits all” model for developing these partnerships. The demarcation of roles and responsibilities will likely vary and are dependent on a wide range of factors, including country contexts, institutional visions, and organizational structures. For example, in some cases, the MFI develops and markets the energy loan product to its clients. In other cases, the energy company will actually market the MFI and its energy loan product to a customer who expresses interest in purchasing an energy service product but is unable to pay upfront, lump-sum costs.

One method of facilitating the clarification of each partner’s roles and responsibilities is by entering into a formal partnership agreement – sometimes in the form of a memorandum of understanding, or MOU. Features of the formal partnership agreement may include the terms and conditions of equipment buy-back and recovery in case of loan default or technology breakdown, stipulate product quality specifications, and

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<sup>1</sup> Examples include the partnership between SEWA Bank and SELCO in India. For more information on this partnership – and on other partnerships – refer to the publications cited at the end of this paper.

outline terms of partnership termination – if ever necessary.

Other joint initiatives that can strengthen a partnership and lead to a successful energy-lending program include a strategic action plan as well as a monitoring and evaluation plan. By developing a strategic action plan, each partner has the opportunity to clearly state business expectations, such as sales targets and the corresponding timeframes. A monitoring and evaluation plan will allow partners to track progress towards set targets and make timely decisions, whether individually or collectively. Both the strategic action and monitoring and evaluation plans enhance communication between the parties involved, leading to more effective partnerships and energy-lending programs.

Prior to all of these steps, however, it is important for both the MFI and energy company to conduct adequate due diligence on its potential partner. Below are one set of tips for MFIs and one set of tips for energy companies, which each party may want to use as a guide prior to entering into a partnership with the other to develop an energy-lending program. These tips represent a consensus of opinion of MFI and energy company representatives who discussed and reflected on their own experiences in this topic at an August 2007 workshop in Ahmedabad, India.<sup>2</sup>

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<sup>2</sup> 53 MFI, energy company, and investor representatives from 19 countries attended this four-day learning workshop to present and discuss findings from research funded by the Citi Foundation and U.S. Agency for International Development, share emerging experiences, and identify current and future opportunities and challenges in using microfinance to expand access to energy services.

## **Tips for MFIs – what to look for in an Energy Company**

***Common Development Vision*** – The energy company should have a shared vision with the MFI and view lower income populations as a potential market that is worth serious research and development investment and future expansion on a commercial basis.

***Reputable and Reliable*** – The energy company should have a solid reputation (including the reputations of its staff, management, and Board of Directors), good references, brand recognition, a sound track record, self-sustainability, and an acceptable time period of operations.

***Local Market Presence*** – The energy company should understand the local market and have a physical presence where the MFI operates in close proximity to its clients. The energy company should also have a presence or linkages in rural areas to prevent the MFI from taking on additional responsibilities such as maintaining inventory of energy products in-house.

***Focus on After-Sales-Service*** – The energy company must also be able to provide adequate service to the MFI's clients within an acceptable time frame, i.e. sign a service contract, ensure warranties for products and accessories, negotiate “buy-back” deals in case of loan default, ensure convenient service at customer's door, ensure customer satisfaction surveys, and local technicians.

***Strong Business Principles*** – The MFI should investigate the energy company's pricing, credit terms, product quality, and flexibility in product offerings.

### ***Capacity to Meet Needs of Clients*** –

The energy company should be able to supply energy products best suited to the needs and purchasing power of the MFI's clients. It must also be able to prove its experience in specified technologies as well as its capacity to manage additional business.

***Technical Training*** – The energy company must agree to train MFI staff, particularly those in the “front office” that typically interact with clients, and clients who are interested in energy service products on the technical use of the energy service products because the costs, benefits, and uses of modern energy tend to be relatively unknown to the MFI and staff and its client base.

## **Tips for Energy Companies – what to look for in an MFI**

***Flexibility in Lending Models*** – The MFI should be flexible in designing financial instruments (lending products as well as risk mitigation products) for energy loans, including terms of repayment schedules, collateral requirements, loan tenure, and eligibility criteria.

***Extensive and Diverse Reach*** – The MFI should have broad market coverage and a loyal and varied client base in order to enable the energy company to reach some economies of scale. The MFI should also possess a willingness to attract new clients, such as the energy company's existing customers, as well as take advantage of a parent institution's wider client network.

***Readiness to Introduce Energy Lending*** – The MFI should have a demonstrated track record of innovation

and pioneering in microfinance, management willingness to add unconventional products to its product line based on client demand, and have risk-bearing capacity. Risk bearing capacity may come from having a parallel non profit institutional structure that can absorb the cost of research and market development or subsidize start-up costs with grant funding

***Creditworthy and Sustainable*** – The MFI should have a solid track record that includes high levels of transparency, strong client retention, healthy financial performance indicators, an optimistic, but realistic business plan, solid loan tracking and monitoring systems, well-disciplined management, and a reputable Board of Directors.

***Demand for Energy*** – The MFI should know its clients and markets well and should be able to demonstrate a demand for energy services, through thorough market research, as well as ensure a critical mass of customers with capacity to repay based on overall household cash flows, on a continual basis.

***Top Management Buy-in and Internal Champion of Energy*** – Energy lending within the MFI needs to have acceptability and championing at the very top level in order to implement the necessary strategic changes in organization design, operations, and products required that may be required in establishing an energy lending program. Otherwise, there is a risk that the program may be de-prioritized, stagnate, or even die once a field level champion exits the organization.

***Dedicated Human Resources*** – The MFI should be willing to devote at least one staff member dedicated to working

closely with the energy company in designing a loan product to expand access to energy services for its clients.<sup>3</sup>

***Internal Capacity to Support Energy-Lending Program*** – In addition to an internal champion, the MFI must also be able to show that it can a) allocate sufficient human and financial resources to start an energy lending program and manage it on a sustainable basis and b) make efforts to institutionalize energy lending through training and awareness creation at all levels within the MFI.

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<sup>3</sup> Shared experiences from Kenya reveal that providing incentives to sales persons can enhance dedication of staff as well as positively affect the overall success of lending programs.

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Allderdice, A., et al. November 2007. *Using Microfinance to Expand Access to Energy Services: A Desk Study of Experiences in Latin America and the Caribbean*

Hilman, H., et al. November 2007. *Using Microfinance to Expand Access to Energy Services: The Emerging Experiences in Asia of SEWA, SEEDS, NUBL, and Amret*

Kabutha, J., et al. November 2007. *Using Microfinance to Expand Access to Energy Services: The Emerging Experiences of Faulu Kenya and KUSCCO*

Morris, E., et al. November 2007. *Using Microfinance to Expand Access to Energy Services: Summary of Findings*



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