

Energy and Microfinance: The cases of A3C and UCCGN in Cameroon

FACILITATING ACCESS TO SOLAR ENERGY THROUGH MICROFINANCE

The Energy & Microfinance Programme was launched in 2013 with the support of the Swiss Cooperation (SCBF), the European Union (EU/ACP Microfinance), the International Fund for Agricultural Development (IFAD), the Liechtenstein Development Service (LED) and the United Nations Capital Development Fund (UNCDF/CleanStart). The programme aims to increase access to solar energy for rural people excluded from national power grids, to help reduce their energy bills, improve living conditions, reduce health risks associated with the use of fossil fuels, and develop their economic activities.

It was first piloted in three countries: Cameroon, Tanzania and Ethiopia.

In Cameroon, two networks of Self-Managed Village Savings and Credit Associations (CVECA), the *Association des CVECA et CECA du Centre du Cameroun (A3C)* and the *Union des CECA et CVECA du Grand Nord (UCCGN)*, decided to launch the program in their respective areas of intervention, Central and Northern Cameroon.

Unmet energy needs

In Cameroon, 9 million people, or 46% of the population, still lack access to electricity. In rural areas, where CVECA networks like A3C and UCCGN operate, the proportion rises to 83%¹.

Created in the 1990s, these networks offer savings and credit services through local outlets located directly in the villages and self-managed by the communities. They cater to a rural, mostly agricultural and unbanked population. Their objective is to contribute to local development and financial inclusion through participatory microfinance.

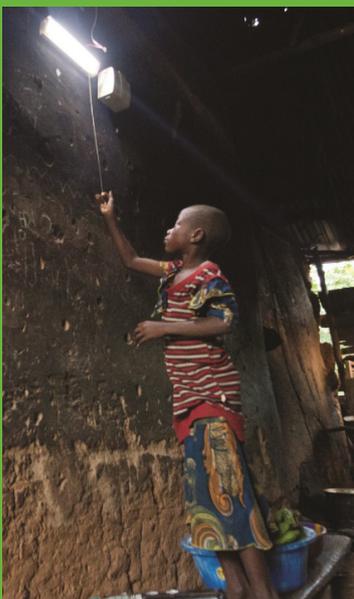
Deeply attuned to their members' needs, these networks have clearly identified the lack of **access to electricity as a major obstacle to improving living conditions and local economic development.**

A needs assessment carried out with the support of the Cameroon support association for



Teate village savings and credit association (A3C), equipped with solar energy

¹ IEA, *World Energy Outlook 2013*



microfinance development (MIFED) and PAMIGA, with 86 members of A3C and UCCGN networks in February 2013, confirmed that 100% of respondents were not satisfied with their access to energy.

Because they are not connected to the national grid, these rural populations depend mainly on kerosene lamps (84% of respondents) and flashlights (48%) for lighting. These solutions are both costly and can be dangerous (risk of burns and poisoning related to the use of kerosene lamps).

A large majority (80%) have mobile phones; but to charge them, they have to go to the next town or pay someone with access to a generator. Aside from battery-operated radios, use of electrical appliances (TV, fridge, fan, mills or other equipment) remains marginal. In each village, a few people have a generator; however, they use them sparingly, due to the high cost of fuel and regular repairs. On average, respondents spend 15,600 FCFA (roughly 24 euros) per month on energy bills—between 8 and 10% of their monthly income. This is far more than what electrified households pay.

Solar solutions offer a path to improvement in these isolated rural areas. However, access to solar technologies is still difficult. The main barriers are:

- lack of accessibility to technological solutions (solar solution providers are often not present in rural areas);
- lack of information to select reliable solutions (quality can vary greatly when it comes to solar solutions); and
- lack of financing solutions for such investments (solar solutions have a high up-front cost compared to other energy sources, but that is far outweighed by limited operational costs in the medium-term).

Given this situation, A3C and UCCGN decided to develop a financial product dedicated to solar energy. For these microfinance institutions, the initiative is fully in line with their social mission, with significant strategic benefits. Such a product allows them to diversify their portfolio, differentiate themselves from competitors, build client loyalty and attract new customers. It also has the potential to enhance their image among investors as a responsible financial institution.

Solar energy access posed a new challenge to UCCGN and A3C, and called for technical expertise they did not have. This is why the networks turned to PAMIGA; to help them develop new products and services that would meet the energy needs of rural households.

Our approach: Offer tailored solar solutions through microfinance

PAMIGA's methodology drew on the lessons learned from other solar microfinance programmes. The approach was based on the assumption that the initiative involves more than just pure product development. To offer adapted solar solutions through microfinance, PAMIGA and its partners gave close attention to:

- **Selecting quality solar solutions** with a warranty, and **reliable suppliers** capable of providing high-quality services to clients; this is crucial, to avoid that customers go into debt to acquire low-quality technologies that might stop working after a few months, posing credit and reputational risks for the microfinance institutions.

- **Developing appropriate financial products**, based on a risk management approach, aligned with the expectations and repayment capacity of clients.
- **Strengthening the skills of microfinance institutions**, to manage the technical aspects related to access to energy and solar solutions.
- **Clearly dividing roles between the microfinance institutions and solar solutions distributors** so that the client could understand the responsibilities of each.
- Developing the necessary tools and procedures to **educate customers on correct usage of their solar solutions** in order to avoid errors that could damage the equipment.
- **Testing the model in a pilot phase, and making adjustments iteratively** through frequent meetings and workshops with partners, to promptly rectify problems as they arose.



Training on solar energy for MFI staff

Implementation and first results

In Cameroon, the Energy & Microfinance programme was officially established in March 2013, during a workshop gathering microfinance institutions (including A3C and UCCGN), a provider of solar solutions (Schneider Electric) and support organizations (MIFED and PAMIGA).

Several months of preparatory work made it possible to:

- Establish partnerships with Schneider Electric and its distributors in Cameroon, SOREPCO and Instrumelec;
- Define the roles and procedures for the different partners;
- Develop adapted financial products;
- Develop a marketing strategy and tools; and
- Train teams from the A3C and UCCGN networks.

The pilot phase was conducted over nearly a year, during which time the partners met regularly to take stock of achievements and potential bottlenecks, and make necessary adjustments.

Stages of Implementation	Period
Needs assessment	February 2013
Kick-off workshop	March 2013
Preparatory work	March-July 2013
Pilot phase	August 2013-July 2014
Assessment of the pilot	May-July 2014
Workshop on lessons learned	July 2014
Development of a roll-out strategy	August-September 2014

Two new financial products were developed in the two networks:

The **"Lighting Loan,"** which enables investment in small solar solutions for home energy needs such as lighting and mobile-phone charging;

The **"Energy Loan,"** which finances larger solar solutions for equipment used by micro and small enterprises.

As of June 30, 2014, **231 solar kits** had been distributed for a total of **14.6 million FCFA** (US\$ 30,220). The staff of 17 pilot rural outlets (11 CVECAs from the A3C network and 6 CVECAs from the UCCGN network) was trained in the new financial products as well as solar solutions. A first group of **10 local technicians were trained** to install and maintain solar solutions. More than **1,400 rural people were trained** on the concept of solar energy.



First testing of the solar solutions by microfinance clients during demonstration sessions

Key Lessons

The pilot project clearly confirmed that access to solar energy meets a very high and solvent demand. The loans have paved the way for considerable economic, social and environmental impact and represent a promising opportunity for impact investing.

The assessment of the pilot, carried out by a PAMIGA-contracted expert, identified key lessons and potential adjustments needed before rolling out the programme to the rest of the A3C and UCCGN networks.



A client of A3C, in Teate village, who invested in a 4-lamp solar kit thanks to a Lighting Loan; today, he does not use kerosene lamps anymore and is very proud that his house remains lighted in the evening.

From a technical standpoint, three major lessons stand out:

- **It is essential to facilitate synergies between the worlds of microfinance and energy.** Building strong local partnerships between microfinance institutions and distributors of solar solutions is essential for the successful roll-out of such a programme. The Cameroon experience has furthermore shown that it is important not to underestimate the time needed to build trust between the different actors. Microfinance institutions and distributors of energy solutions are simply not used to working together. Even when they come together around a common goal to improve access to solar energy in rural areas, each sector has its own vision, procedures and technical language. The pilot showed that for the two sectors to understand each other, communicate and work together effectively, it is essential to have an organization that can act as a facilitator during the start up phase, and to ensure regular meetings and exchange visits are made between the different partners.
- **Motivating teams is also of critical importance.** Field staff often perceive the "Lighting Loan" and "Energy Loan" as complex and time consuming. Managing these products required a greater involvement of loan officers, in particular to coordinate orders and deliveries, support clients to install kits, and educate them in the proper use. At times, loan officers have even had to act as a facilitator for after-sales services. The risk then is that loan officers prioritize more conventional loans, at the expense of Lighting and Energy Loans. The pilot made it clear that it was essential to clearly communicate to the teams on the financial and strategic benefits expected for their institution, as well as to have an incentive system (financial or otherwise), while adjusting the allocation of roles between microfinance institutions and local distributors.

• **Microfinance networks alone cannot reach the “last mile”.** The pilot phase has indeed confirmed that the need for local technical services is important, not only to promote solar solutions in the villages, but also to install kits, educate clients in the proper use of the solutions, and ensure maintenance. As the solar solution distributor in Cameroon is located in urban areas, the staff of the microfinance institutions had to assume a variety of additional activities ranging from delivery to the management of after-sales services. This goes far beyond what microfinance institutions usually do. To compensate for the lack of local technicians, the programme partners decided to set up an **Energy Entrepreneurs Network**, located in the villages. These entrepreneurs are responsible for promoting solar solutions and offering local high quality services to clients (delivery, installation, after-sales services). A business model has been defined so that the Energy Entrepreneurs are profitably and sustainably integrated into the partnership between the microfinance institutions and solar energy distributors.

Conclusion

Facilitating access to renewable energies through microfinance goes far beyond purely financial product development. It requires that actors from different horizons pool their expertise and work in synergy to confront a major development challenge.

A gradual and interactive approach is thus essential. Field testing shows that these innovations call for patience; they require testing, learning and making regular adjustments to different models, in order to implement a distribution system and financial services that are relevant, effective and efficient.

The pilot programme in Cameroon with A3C and UCCGN offers a wealth of lessons. It confirmed that this type of programme requires more than just targeted support to microfinance institutions to develop appropriate financial products; success hinges on concerted efforts to strengthen the energy solutions supply chain.



The first Energy Entrepreneurs graduates, trained in September 2014



7, rue Taylor
75010 Paris
Tél. : +33 (0)1 42 01 60 15
www.pamiga.org