This case study captures the process through which SELCO convinced a local bank to finance 12 households for solar home lighting and mobile charging systems in an off-grid community. The households were provided with a loan to invest in individual solar household system against a partial guarantee from SELCO. This financial mechanism has found a lot of traction in convincing a hesitant financial institution to finance first time “high risk” customers in a remote area. It also provides a potential solution to repayment barriers brought on by remote locations.

The community is located in the interiors of Kateel, Mangalore, Karnataka. They are total of 40 households, staying at this location for 8 years. They have migrated from Northern parts of Karnataka and most of the men and 50% of the women are mostly employed as daily wage laborers. On an average they earn around Rs 300 – 400/day. The settlement, although placed in proximity to grid connectivity, do not have access electricity as they are residing in the area without any land documents. They use candle, kerosene and oil as alternative options to provide lighting needs at home that cost Rs 200-300/month.

SELCO had identified the need in the community through a routine scoping exercise in the area. Although the community desired solar lighting in their homes, end user financing became crucial. Even with the presence of several financial institutions in the area, financial services were not extended to the community on the grounds of inadequate land documents, absence of a viable collateral and high transaction cost associated with small loan. Thus a situation was created wherein a community was left out of the services of formal financial institutions. SELCO, influenced a local bank, Karnataka Vikas Grameen Bank (KVGB) to take up the project after their first interaction at a financial workshop held in Dharwad, Karnataka targeted at encouraging bankers to extend financing for solar products. KVGB agreed to finance 12 households but against a partial risk guarantee of Rs 50,000 from SELCO.

Rationale for Risk Guarantee as a convincing financial mechanism:

1) Make financial institutions/banks amenable to financing for solar systems without reducing capital cost, rather targeting the financial barrier of access to credit.

2) Building awareness among under-served/non electrified community about the availability and affordability of solar products

3) Influencing the bank to finance high risk customers as selco stands guarantee

4) Connect the isolated community without prior banking experience to a formal financial institution and bring in a culture of savings, repayment discipline and so on. Thus, empowering the community to access other financial services as well.
Project Nuances

- The community resides in an undocumented land holding, that makes it difficult for formal institution consider financing.
- Regular visits by branch is to the community and the bank is vital to maintain trust.
- The community has potential for other livelihood opportunities that require financial assistance.
- Repayments are currently made individually by user to the bank.
- A pigmy agent is in the process of being appointed to monitor collection.
- Project has potential to turn into an entrepreneurial model.

SELCO also build a relationship with the bank by:

1) Tracking repayments – through periodic visit to the community by SELCO
2) Connecting the bank to finance other similar SELCO projects (this connection has also established a prospective project “Solar Mobile canteen” a pilot project by SELCO
3) SELCO gives the bank constant updates on the state of government subsidies available on solar financing (MNRE subsidy etc)

The relationship between SELCO and the beneficiaries is an imperative role beyond facilitating a financial linkage. Right from the process of needs identification, SELCO has established a personal trust with the beneficiaries in understanding their local contexts, providing a solution, installation and after sales service.

In the current scenario, the customers are facing difficulties in depositing the EMI directly at the bank as it is located about 25kms away. Thus, SELCO is exploring an option of identifying a collection agent from the community who can collect the repayments and deposit it at the bank for a small commission. Eventually this could turn into an employment opportunity if the bank decides to use the collection agent for elsewhere as well. Besides since the bank has loaned to the entire community it will create peer pressure to repay on time as the collection agent will only deposit the entire amount once all customers have paid the due EMI amount.

Impact

For customers:

- Access to energy for lighting and mobile charging, especially for the women to cook and for children studying late into the evening.
- Connection of users to the formal banking system and encouragement of savings through additional monies deposited along with the EMIs.
- Savings from purchase of kerosene for lighting and also creation of a long term asset.
- Potential employment creation through a collection agent.
- The community has approached SELCO & KVGB for financial assistance in employment opportunities among women (such as tailoring, fabrication etc.).

For bank:

- Channels of other loan financing needs for the community.
- The bank (KVGB) has extended their relation with SELCO and are financing other solar projects such as the mobile canteen – on going.

Key Aspects

1. Engaging and building relationship with financial manager which can lead to long gestation periods to complete projects (6-8 months).
2. Provision of a risk guarantee which can be partial and not the entire loan amount for all the houses but more as a symbol of good faith and trust between partners to finance “high risk” customers.
3. Persistent follow up with customers including live demonstrations which can take efforts spanning 3 months.
INNOVATION

Partial risk guarantee as a financial mechanism to convince bank

Collection agent model to overcome remoteness barrier and facilitate ease of repayment

Top to bottom (clockwise): Customer with light, mobile charger, in front of house with family members
Our funding partners