Title: Risk Guarantee Funds to Unlock End User Financing
Case Study no: 25
Initiated in: 2014
Key terms: financial inclusion, risk guarantee, bank, north Karnataka, Manipal foundation

This case captures the use of a risk guarantee mechanism to de risk lending of financial institutions to perceived high risk customers i.e low economic profile, vulnerable jobs and no credit history. Through the deployment of solar home lighting systems in 100 households via three banks and eight bank branches the mechanism can be showcased to other bankers on the viability of funding such communities. This mechanism has been used in the past successfully to convince otherwise hesitant bankers to extend solar loans. More importantly, these customers for the first time have been included in the formal financing system plus the banks have also loaned to the communities for the first time. This further underscores the impact dimensions of financed solar home lighting systems beyond just improved lighting conditions.

Identification
Communities were mainly identified through routine scouting and needs assessment activities, local leaders/champions and local reports. The SELCO team carried out a number of site visits and interactions to determine need, site conditions, financial capacity, local financing ecosystem.

North Karnataka is a semi arid region accounting for nearly 60% of the state’s land mass and is divided into about 13 districts. Imbalanced development efforts have consistently made this region a serial underperformer on major economic and human development indicators in comparison to other parts of the state. The region suffers from high poverty, illiteracy and unemployment forcing these traditional farming communities into migration. Karnataka has the second largest arid zone in the country and the North receives only about 600mm of rain compared to an average of 1000mm in the rest of the state, making it prone to regular drought conditions.

The project targeted communities who were from very backward districts in the region, barely making ends meet and predominantly employed as small farmers, manual laborers, petty businesses or migration workers.

SELCO identified one major need-clean reliable lighting to replace current dominant usage of kerosene lights in the absence of any alternative. While a technology solution was available, uptake of this solution was hindered by the inability to pay upfront for the system. A lack of credit history, low economic profile made it difficult to convince bankers. Hesitation of local financial institutions to lend and any other viable financing mechanism greatly hampered the ability of these communities to access much needed credit to purchase solutions.

SELCO in partnership with Manipal Foundation formed a risk guarantee fund to derisk lending by local banks to overcome a risk perception with “high risk” customers. As and when these loans get completely repaid the guarantee amount will be withdrawn and reused to release a fresh set of loans to similar high risk communities with other bank branches.

This financial mechanism was directed to ensure bankers build their confidence by lending to a few members of the community with the comfort of the risk guarantee fund in case of any defaults and then subsequently lend without any guarantee to the next round of customers.
Fig. 1: Financing and Installation Process

### Financials

- **Cost of the System**: Rs. 7000 (1 light)
- **Down payment** by customer: Rs. 500
- **Loan**: Rs. 6500
- **Govt. subsidy**: Rs. 1500
- **Risk Fund with bank**: Rs. 3000
- **Net risk exposure of the bank**: Rs. 2000

Average EMIs will be Rs 145 for a 5 year loan. The subsidy will be adjusted at the end of the loan period.

### Impacts

In total 100 households were reached i.e. 500 customers through 3 local financial institutions—Syndicate Bank, Karnataka Vikas Grameen Bank, Pragathi Grameen Bank through a 8 bank branches

1. Challenged the business-as-usual practices of mainstream financial institutions by encouraging them to adopt measures that promote greater financial and social inclusion of customers that are often neglected because of their socio-economic backgrounds. As these financial institutions become more familiar with the technologies and the credit-worthiness of these customers, an important example will be created for other financial institutions, ultimately helping to mainstream the financing models to reach more people within these segments.
2. Improved their quality of life, allowing them to conduct their daily activities with less difficulty and avoiding the need to resort to kerosene lamps, which are linked to numerous health and safety concerns.
3. Access to lighting has increased end-users’ productive work hours (especially home-based workers) into the evening, freeing up crucial daylight hours for other pressing activities.

### Key Aspects for Replication

1. Investing in time and resources to build relationship and trust with local financial institutions and being amenable to this pre intervention period lasting up to three weeks.
2. Engaging different levels of financial institutions can build pressure and interest which will further loop back to local bank managers.
3. Channelizing soft funding towards overcoming targeted financial barriers rather than reducing the capital cost of the system. Opening up credit and choosing financial products in line with cash flows is a more sustainable way to enhance affordability.
4. Taking financiers to sites to view firsthand the impact and local conditions. This can be a powerful convincing tool.
<table>
<thead>
<tr>
<th>Site Name</th>
<th>Beneficiary Details</th>
<th>Bank Name</th>
<th>Type of system</th>
<th>No of Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Siddeshwar Ashreya Colony, Koppal</td>
<td>Unelectrified shelter colony, manual labour/small business</td>
<td>Pragati Krishna Grameena Bank</td>
<td>2 light, mobile charger</td>
<td>16</td>
</tr>
<tr>
<td>Illkal, Bagalkot</td>
<td>Unelectrified shelter colony, handloom weavers</td>
<td>Karnataka Vikas Grameena Bank</td>
<td>2 light, mobile charger</td>
<td>13</td>
</tr>
<tr>
<td>Hamsabhavi, Haveri</td>
<td>Unelectrified slum, petty business/manual labour</td>
<td>Karnataka Vikas Grameena Bank</td>
<td>1 light, mobile charger</td>
<td>10</td>
</tr>
<tr>
<td>Gulelgud, Bagalkot</td>
<td>Unelectrified agri labourers</td>
<td>Syndicate Bank</td>
<td>1 light, mobile charger</td>
<td>15</td>
</tr>
<tr>
<td>Ingaladhal, PeddaHarivanam, Andhra Pradesh (near Sindhanur)</td>
<td>Unelectrified agri labourers, marginal farmers</td>
<td>Syndicate Bank</td>
<td>2 light, mobile charger</td>
<td>22</td>
</tr>
<tr>
<td>Guttal, Haveri</td>
<td>Unelectrified agri labourers</td>
<td>Karnataka Vikas Grameena Bank</td>
<td>2 light, mobile charger</td>
<td>7</td>
</tr>
<tr>
<td>New Daroji, Bellary</td>
<td>Unelectrified agri labourers</td>
<td>Pragati Krishna Grameena Bank</td>
<td>2 light, mobile charger</td>
<td>14</td>
</tr>
<tr>
<td>M Gonal, Bellary</td>
<td>Unelectrified agri labourers</td>
<td>Pragati Krishna Grameena Bank</td>
<td>2 light, mobile charger</td>
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</tr>
</tbody>
</table>
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