Case Study: Mechanisms to mobilize existing financial inclusion systems
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Mobilizing Financial Inclusion

This case study captures the end user financing mechanisms employed to enable 7 families in a rural community to afford solar home lighting systems. A combination of a peer collection group, risk guarantee and margin money discount was used to take out a loan with reduced risk for both the lender and the borrowers. While the community had access to bank accounts they never used them and this case demonstrates how simple complementary mechanisms can stimulate end users and bankers to unlock credit beyond the possession of a bank account.

This is a rural community of 7 families (20 individuals) living near Tumkur, Karnataka. They have lived in the Tumkur area for 30 years and in their current location since 2001. The community is well known in the area for their snakebite healing abilities; however, this does not contribute greatly to their income as they see it as their duty to provide this service and the demand for healing is sporadic. The charge for snakebite treatment is Rs.500. Their primary source of income is through daily agricultural wage labor, through which they earn around Rs.100 per day. This is a reliable income as long as there is adequate rain.

The community has one grid-connected streetlight provided by the gram panchayat, and it works irregularly. The 7 households do not have grid connections, and there is no access to toilets. The gram panchayat supplies water to one communal tap every 3-4 days. Previous to investing in solar, the community used 8-10 litres per month of kerosene to meet their household lighting and cooking needs at Rs.45 per litre. Kerosene is still used for cooking, requiring 4 litres per month.

Previous to SELCO’s engagement with the community, six women in the community had bank accounts with State Bank of Mysore (SBM) that had been opened in 2012 through the GoI’s 100 Days’ Work Programme. The accounts had not been used because of lack of awareness surrounding how to use the account for saving and discomfort in going to the bank without this knowledge. There was no relationship between the community and the SBM.

When the SELCO Branch Manager and Sales Associate first approached the community, they discussed the general needs of the community. The community has been approached by others who have promised to provide services but failed to deliver, and it was assumed that they would not be able to afford the systems. SELCO visited four times, demonstrated the technology and building trust, thereby motivating each household to find a way to purchase solar systems. While initially the SBM

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Community approached by SELCO branch after Branch Manager read about the community in a newspaper article.

Problem Statement
To identify access to end user financing for a rural snake bite healing community willing to form a Joint Liability Group to obtain a loan from a financial institution.

System Design
- 2.4W LED light system with DC mobile charging point, 12 Wp module, 15Ah battery, and wiring with warranties on the module (8 yrs), LEDs (1 yr), light fixture (5 yrs), battery (5 yrs), regulator (5 yrs)
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branch declined to lend to individuals in the community even after 6 meetings, SELCO invoked the assistance of the SBM Regional Manager, who agreed to the loan if the community formed a Joint Liability Group (JLG). To share the risk born by SBM in extending the loan, SELCO provided Rs.500 in margin money per system and a risk guarantee fund of Rs.25,000 (40% of total loan) that is fixed in the bank until the loan is repaid in full.

SELCO assisted 7 women in the community in forming a JLG (standard paperwork and opening a JLG bank account), which they call Adi Shakti. Adi Shakti holds meetings every Friday at which each woman contributes Rs.10 to the group’s corpus. This money is then taken to SBM for deposit. Adi Shakti had been saving for 3 months when it received a loan of Rs.60,300 from SBM for purchasing the SELCO solar systems. Now, each month Adi Shakti pays installments on the loan from its bank account. The installment is Rs.400 per month per person, but the group has decided to pay Rs.500 each (Rs.3,500 total), meaning it will pay off the loan in less than the loan’s 2 year tenure.

All money transfers (into the JLG corpus and from the JLG to SBM) are recorded in accounting books, making the financials very transparent. There is one book for each JLG group member, one book for the JLG, and one book for the JLG bank account. The minutes from the JLG’s weekly meetings are recorded in detail. A SELCO branch representative has taught the only literate woman in the group to fill in the books, and SELCO checks the books during monthly visits.

**Key Aspects**

- The SELCO representative formed a trusting relationship with the community by visiting several times and learning about their overall needs, as opposed to just energy.
- Financial awareness and management was key in mobilizing the group to actively participate in the JLG. Just providing a mechanism would not work but it needed a more holistic approach.
- A champion Regional Manager at SBM who directed the Branch Manager to provide the loan because he was familiar with the idea and success of JLGs.
- Creation of a Joint Liability Group, with assistance from SELCO, to take out a loan and through which the group members can organize weekly money collection and monthly payment of loan installments.
- SELCO’s provision of a risk guarantee of 40% of the total loan lowered the risk born by the bank and signaled SELCO’s commitment to the project.
- SELCO’s provision of margin money equal to 5% of the solar system cost further reduced the risk to the bank as well as loan burden on the JLG.

**Lessons Learned**

- Having a bank account does not mean that an individual will use it; utilization requires understanding and guidance from bankers.

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1 Joint Liability Group is a group of 4-10 people of same village/locality of homogenous nature and of same Socio Economic Background who mutually come together to form a group for the purpose of availing loan from a bank without any collateral.
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