Title: MoUs, Energy Companies and Financial Partners
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One of the key aspects of delivering reliable energy solutions to the poor is access to financing which enhances their affordability and ability to purchase solutions that are suited to their needs. SELCO has been facilitating credit through partnerships with financial institutions as a part of its business model. The types of financial partners tapped into can vary from public banks, community organizations, cooperative societies, micro finance institutions and so on. The case captures key aspects of a formal agreement between SELCO and a community based micro finance partner in an effort to shape language and responsibilities that ensure both parties are invested in providing reliable energy solution for the end user. While it draws on a particular partnership with a community based organization, SKDRDP, it can be extended to any similar partnership between technical and financial actors.

System Design
Typically, systems sold under the SELCO/SKDRDP tie-up ranges from 1-light to 6-light systems. With a solar panel of 10-40W, lighting system ranging between 5-20W LED tube and a mounting structure. This is dependent on specific requirements of the household in any given village. The system cost can range from INR 8,500 to 20,000.

Impact
SELCO/SKDRDP partnership has lead to the deployment of more than 25,000 systems benefitting 1,20,000 people across rural Karnataka resulting in access to energy for poor households and in the process significantly contributing to carbon offset efforts. SKDRDP received the Ashden Award in 2012 for its efforts to promote renewable energy.

Understanding that end-user financing is crucial for providing reliable energy solutions for the poor in rural and remote areas, SELCO works with a network of different types of financial institutions like regional rural banks, cooperative societies, microfinance organisations (MFI’s) and so on to provide affordable credit to enable them to purchase energy access solutions like solar home lighting systems. In addition to a financing role, these partners possess an in-depth understanding of working with underserved communities as they typically offer other services including livelihood activities, capacity building, rehabilitation, empowerment, market linkage support and so on. Thus they represent a powerful grassroots financial institution that can be tapped into in addition to regular banks.

SELCO forged a partnership with one such type of community based organization offering financial services to its members, SKDRDP. Financial instruments include loans, pensions and insurance as well as financial literacy and empowerment programs. The partnership was to promote solar lighting systems in particular and renewable energy in general among SKDRDP’s existing and new customer base. The tie-up has matured in many ways, in that SKDRDP has established a dedicated renewable energy program since early 2000’s of which SELCO has become an integral part as a technical service provider. Over the course of more than a decade, this partnership has lead to the installation of over 25,000 solar systems in rural Karnataka.

Initially the technology and associated benefits were met with skepticism so in order to build this trust and do away with the skepticism, SELCO installed a few sample solar systems in a key representative’s (SKDRDP) house and a few public spaces like schools and temples to demonstrate the credibility of solar technology to the organization as well as its customer base. These efforts plus a sale of a few systems to SKDRDP’s customers lead to a formal MoU by the two partners in 2003, subject to an annual renewal based on the milestones and deliverables achieved against the preset goals in the previous year.
The following sections outlines key aspects that have been generalized from a sample of similar agreements in SELCO.

**Process for leading to financial tie-up:**

- **First Contact:** An inquiry is generated from the financial partner’s side or an organization is referred to SELCO by its own employees, partners or existing networks.

- **Suitability Study:** A study is performed by the Financial Partnerships team at SELCO, comprising of members with banking and community finance experience. Assessment criteria include overlap of regions covered, reach of branch network, interest rates (at SELCO, generally interest rates of 18.5% or below is a benchmark), community mobilization ability of the organization and reputation within the community.

- **Partnership Letter:** A partnership letter that dwells on the background and mission of SELCO, potential key terms for agreement, particulars of products that are to be covered under the MoU is shared with the financial partner as an extension of the first “feelers” of whether both parties agree to work together.

- **Board Approval:** The offer letter and the terms are to be approved by the board members/managing trustees of the partner organization

- **MoU:** Post final approval from the board, an MoU that formalizes the roles and responsibilities of the partners is signed

Below are a list of critical conditions and terms that need to be in place for a strong partnership and deployment of a reliable solution.

**Key Aspects and Conditions of the MoU**

- **Expedient Lending:** In the case of SKDRDP, timeframes from customer identification up until the loan disbursal is a little more than a week, making it one of the most expedient loan products of the MFI. This is because SKDRDP treats advances under renewable energy solutions as priority portfolio. It also has a lean application process particularly for small loans without the need for no due certificates, stamp duty, collateral and well managed transaction costs for these small loans.

- **Branch Targets:** In some cases, financial partners set targets at its branch level for solar systems sold to its customers. It also sets incentives at the branch level to promote energy access solutions.

- **Marketing:** SELCO undertakes joint promotional and marketing activities with the branch level executives of the financial partner through demonstrations at public gatherings and branch meetings targeting potential customers. SELCO commits a percentage of the total cost of the system in its commission structure to SKDRDP to cover its marketing costs. This usually does not go above 5-8%. These joint efforts help in building trust with community members who recognize the local partner and in turn maybe more willing to adopt solutions proposed by one of its partners. Local partners are also better equipped to determine the most suited strategies to get the attention of its members.

- **Training:** SELCO undertakes targeted technical training for select field staff and loan officers of the financial partner to enhance awareness and also tackle minor technical troubleshooting during field visits and/or liaise with SELCO technical staff especially to rural areas.

- **Defaults:** In the event, that a customer defaults on payment beyond the stipulated grace period, the agreement is that the system will be repossessed by the financial partner with assistance from SELCO and is the property of the financial partner till another customer is identified. There have been cases where another technical partner failed to provide after sales service resulting in defaults. In this case, the financial partner approached SELCO and on a pre-determined fee, SELCO serviced the system to a working condition resulting in continued payment on the part of the customer. This has been helpful in building trust with the financial partner and customer.

- **After sales service:** Warranty terms and a schedule for after sales service are included for the duration of the loan period. SELCO provides a working guarantee certificate as a record of this commitment to the financial partner at the time of installation.

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*SKDRDP was started in 1982 in Belthangady taluk of Karnataka. It has over the years evolved its own set of community development program encompassing agricultural support, renewable energy and affordable credit for Karnataka’s rural poor*

**Memorandum of Understanding- A legal document outlining the terms and details of an agreement between parties, including each parties requirements and responsibilities**
A key aspect of the tie up is the loan disbursal process and the payment flow to partners. This requires and necessitates close coordination between SELCO & the financial partner’s ground staff. This is highlighted in detail below to assist in chalking out a timely and sound flow of credit to different stakeholders. Loan disbursal mechanism:

- **Identification:** The customers were identified by the financial partner through its various internal processes. In addition SELCO also provided a list of interested customers who fell within the purview of the financing partner.
- **Aggregation:** Once the list of customers reached a critical mass of 10 plus applicants in a region at the branch level, it was shared with SELCO for further inspection.
- **Needs Assessment & Quotation:** SELCO performed site visits to ascertain the needs and requirements of the user and subsequently forwarded an estimate of potential solution chosen by the customer during the inspection to the financial partner for approval.
- **Loan disbursal:** The loan amount is then sanctioned based on the credit absorption level of the individual as determined by the financial partner. Thus there is no restriction on the quantum of loan rather it is based on the energy needs of the end user and their ability of pay. This is important in delivering customized need based solutions.
- **Payment to SELCO, Technical Partner:** As and when it’s approved (typically a few days), the payment to the technical partner can be disbursed in three ways - a 100% upfront payment or in phased tranches in sync with pre and post installation progress or complete payment post installation. Usually a maximum of 15 days is stipulated for financial partners to complete due payments.
- **Documentation:** Typically supporting documentations include invoices, installation certificates, warranty cards as evidence of mutual agreement and installation of systems for all three parties - customer, technical and financial partners.

### INNOVATION

- Optimal incentive structures across organisation and its branches to scale sales
- Community microfinance organisation as a platform for end user financing and marketing for rural poor

### Analogies

In order to catalyze the uptake of sustainable energy solutions among end users in rural areas, the UNEP Risoe Centre in 2003 developed an innovative credit mechanism - a *back ended interest subsidy* - to reduce the cost of financing associated with small energy loans and stimulate financial institutions to increase their energy portfolios through a more attractive loan package for the customer. This program was rolled out in partnership with two key national banks in India and five solar pre-qualified solar vendors. This case story highlights critical operational processes between the vendor (technical partner) and financial institution that in turn lead to a successful deployment of 20,000 systems in 3 years.

***This mechanism was inspired from a SELCO Solar Pvt. Ltd (www.selco-india.com) proposal of $1.1 million to stimulate consumer credit funded under a PVMTI project of IFC and GEF in 2000. The positive feedback from the mechanisms employed by SELCO including interest subsidy and risk guarantees to unlock end user credit for small energy systems stimulated a call for this sort of larger scale assistance by UNEP.***
Our funding partners

- USAID | INDIA
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