Electric Bankers: Utility-Enabled Finance in Sub-Saharan Africa

Daniel Waldron & Siena Hacker
June 9, 2020

Photo: Wim Opmeer, 2018 CGAP Photo Contest
## Agenda

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<td>9:00</td>
<td>Introductions</td>
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<td>Presentation of Paper</td>
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Speakers

Daniel Waldron
Financial Sector Specialist, CGAP

Siena Hacker
Clean Energy Access Coordinator, CLASP
Panelists

Carlued Leon
Research Director, MANAUS Consulting

Martha Kamanu-Mutugi
Principal Marketing Officer, Kenya Power and Lighting Company

Angus Marjoribanks
Chief Operating Officer, EnerGrow
The number of people with energy access is increasing rapidly

514 million people have access to electricity in Sub-Saharan Africa (SSA), up 75% from 2010.

22 countries in the region have doubled their population with electricity in that time.
But households with electricity need more than access — they need appliances.

Appliances are the mechanism that transforms energy access into development impact.
Yet appliance ownership is lacking in SSA

1 in 3 households owns a television

1 in 6 owns a refrigerator

1 in 9 owns a computer

In rural areas access is even lower. Just 4% of rural households own a refrigerator.
A lack of consumer financing contributes to the affordability barrier for many households.

Poor households cannot afford the upfront cost of high-quality appliances.

But consumer financing is unavailable to many.

It is here that utilities and minigrids can help.
Utilities and minigrids can help facilitate appliance financing for low-income customers

“The newly connected must be able to afford (through subsidy, financing, or other schemes) to use electricity, or the benefits of electrification will go unrealized.”

Power For All, “Utilities 2.0”
Connected customers struggle to use electricity, which also hurts energy providers.

44 percent of one minigrid developer’s customers said they “would purchase more electricity, if they could afford the upfront cost of appliances.”
But what is “utility-enabled appliance financing”? It is an umbrella term for a range of financial and business services that utilities and minigrids can offer or facilitate, with the goal of increasing customer access to consumer finance for electric appliances.
This is not a new idea
Four key attributes help utilities and minigrids facilitate consumer financing

#1. Broad, Diverse Customer Base

#2. Rich Consumer Data

#3. Payment Infrastructure

#4. Potential Collateral
1. Providers have relationships with diverse customer bases

Utilities and minigrids serve over **300 million** low-income Sub-Saharan Africans.

Promigas, a Colombian utility, financed connections for decades. It used insights from that experience to develop a credit facility called ‘Brilla’, has facilitated at least **$460 million** to over **1.7 million customers**.
2. Providers possess rich data on consumers who often lack measurable financial activity. Used with their informed consent, customers’ usage and repayment data can expand their access to credit.

In Uganda, EnerGrow has financed MSME assets in communities that UMEME identified as having low levels of consumption.
3. Established payment channels simplify loan repayment

Through on-bill financing, customers can repay loans as a line item on their monthly utility bill or as an addition to prepaid tariffs.
4. Using electricity as collateral can dissuade loan defaults, but …

… disconnection is a recourse of last resort.

It can eliminate future electricity sales, damage the reputation of the provider, and hurt the same lower-income customers that these programs are meant to help.
Utilities and minigrids that want to facilitate appliance financing have a range of options

- Energy providers can allow appliance finance companies to access data or use utility payment channels.
- They can also provide credit directly to customers for appliance purchases at specific retailers.

- Level of involvement will depend on factors like regulations, politics, and operational and financial capacity.
Appliance financing can only succeed if it embodies consumer protection principles

If customers are sold financed assets they’re unable to repay, no one benefits.

Key features are:

• Consumer data protections
• Quality assured products with warranties
• Customer understanding of terms and conditions
But the financial and market context of providers may pose challenges

- Only 2 of 39 African energy sectors were profitable in 2015.
- Financial institutions may not be willing to lend to low-income customers.
- Coordinating multiple partners could strain available resources.

Photo: Indo-Asian News Service
In addition, operational issues represent a major risk to any program
Increased access to appliances benefits everyone involved

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<th>Inclusivity</th>
<th>• Utility financing has a track record of reaching lower-income, rural households.</th>
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<td>Complementarity</td>
<td>• Programs can catalyze a shift to customer-centric, service-based approach.</td>
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<td>Profit</td>
<td>• Consumer finance can offer an additional revenue stream.</td>
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<td>Reputation</td>
<td>• Successful programs will create customer value, improve perception.</td>
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Four key enablers can help utilities and minigrids to facilitate consumer financing

- Talk with customers about their appliances
- Map all customer interaction points.
- Bring in data scientists and credit analysts.
- Review laws and regs around utility financing.
Thank you

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www.clasp.ngo