

Governments can galvanize access to finance and unlock the power of modern energy



Governments at the local and national level can be one of the key levers for unlocking access to small-scale finance for modern energy services. A recent UNDP report entitled *Bringing Small-Scale Finance to the Poor for Modern Energy Services: What is the role of government? Experiences from Burkina Faso, Kenya, Nepal & Tanzania* offers lessons on the role of governments in removing barriers and bridging the knowledge and resource gaps that constrain poor people from accessing small-scale finance essential for purchasing modern energy services.

Access to small-scale finance—that is, small loans, credit, and other financial products tailored to low-income individuals, households, and businesses—is extremely important for expanding access to modern energy services. However, the reality is that the poor typically have limited options for financing the purchase of modern energy services (lighting, refrigeration, mechanical power for grinding and milling, heat, cooking fuels, etc.). This is despite the fact that unlocking access to finance for modern energy has the potential to unleash economic productivity for small enterprises, to create improved health and educational prospects, and to help build assets and incomes of the poor.

This paper examines, based on cases studies from four developing countries, one of the key levers for unlocking access to small-scale finance for modern energy—government at the local and national level. The premise is that access to modern energy services can be increased if small-scale finance options are available, and that the government can play a catalytic role in putting the pieces into place.

The findings from the case studies show that small-scale finance can significantly help expand access to modern energy services for the poor. With careful programme designs, it is possible to achieve dual outcomes: on the one hand, small-scale finance helps to expand access to modern energy services and promote the productive use of energy, and on the other hand, lending for energy appears to make good business sense for the financial institutions. Most critically, the cases clearly point out that governments have a decisive role to play in removing policy, regulatory and technical barriers that prevent small-scale finance from happening. Access to modern energy services can grow at a higher rate in countries where governments take strong leadership in setting pro-active policies and regulations and simultaneously facilitate the innovative models for small-scale finance directed at energy.

A set of specific actions to be taken by governments emerged from the case studies:

Analyze the current situation on small-scale finance for modern energy services. Objective baseline information about the priority regions in the country need to be available to help local energy enterprises and financial institutions initiate or expand lending for energy. With resource constraints and the risks that financial institutions perceive in expanding into energy lending, it is necessary for the government to take a leadership role to assess the gaps and identify opportunities in the priority regions for improving energy access.

Create enabling conditions for linking small-scale finance options with national rural energy programmes and policies. By leveraging budgets and institutional capacity across sectors, governments can share lessons and experiences, reinforce and mutually support energy and finance initiatives, and meet respective targets more efficiently. Moreover, public policies and investments for rural energy should include a component to support the expansion of small-scale finance.

Facilitate partnerships to strengthen financial institutions and energy enterprises serving the poor. Governments can facilitate local business development by providing a platform for information sharing, dialogue and collaboration among the sectors—clarifying existing business opportunities and fostering creation of business relationships. Specific steps that governments can undertake include: (i) adopting standards for good business practices and services for providing small-scale finance for energy; (ii) allocating funds for research and development to develop products tailored to meet the needs of the poor; (iii) participating in regional micro-finance–energy practitioner networks; and (iv) supporting learning exchanges with other financial institutions active in small-scale finance for modern energy.

Support and strengthen monitoring, evaluation, disclosure of energy lending portfolio performance, impact and growth. To meet the current challenge of limited information, governments can: (i) support awareness raising and advocacy on how small-scale finance can make a difference, and (ii) help provide credible and consistent information on energy lending. Governments can also play a key role in supporting standards for independent reviews and disclosures (according to accepted standards) of existing small-scale finance programmes and the development of rigorous systems for regularly monitoring and tracking loans for modern energy.

SNAPSHOT OF THE CASE STUDIES FROM FOUR COUNTRIES

Burkina Faso

1. *Government Co-financing for Community-Based Energy Systems*: highlights multi-functional platform (MFP), a simple, stand-alone community energy system well suited to rural areas without access to electricity. This programme experience illustrates a strong demand for small-scale finance to support income-generating activities enabled by the MFPs. It also shows the potential for creating public-private partnerships to provide capital investment needed to expand energy services for poor people.

Kenya

2. *Combining Small-scale Finance with a Policy Push for Modern Cooking Fuels*: demonstrates how access to credit through microfinance institutions contributed to rapid uptake of modern cooking fuels—specially liquefied petroleum gas (LPG)—by households. It highlights the role of savings and credit cooperatives in enabling relatively poor households acquire LPG burners and cylinders. Major policy steps taken by government, including removal of Value Added Tax and import duties on LPG were also important in expanding markets and bringing these within reach of poorer households.
3. *Policies for Private Distribution of Electricity and Financing for Communities*: addresses removal of barriers, including policies and lack of access to financing that constrains small-scale electricity generation & distribution in rural communities. It demonstrates how, in a favorable policy environment with access to small-scale finance, community based schemes can deepen access to electricity for low-income rural households.

Nepal

4. *Dedicated Government Agency Linking Microfinance Institutions with Solar Enterprises*: documents Nepal's Solar Energy Support Programme, which installed more than 100,000 solar home systems (SHSs). The strong correlation between loan recovery rates & performance of SHSs is an important lesson. It shows the need for effective collaboration among government, microfinance institutions, and solar enterprises to ensure quality installation and maintenance.
5. *Reducing Technical Risks and Transaction Costs for Biogas*: illustrates government's efforts to promote wide use of biogas by providing a targeted subsidy amounting to some 25 to 45 % of total biogas plant cost. It shows that linking subsidy to quality equipment & reliable suppliers ensures consumers benefit and efficient use of funds.

Tanzania

6. *Government Linking Small-scale Finance, Energy Enterprises, and Reliable Service*: examines the Promotion of Renewable Energy in Tanzania (PRET) programme, which aimed to facilitate and support private sector-led growth of rural energy market by linking financing, solar energy enterprises, and service for consumers. It indicates that partnering with government increased PRET's potential for programme sustainability and scale up.
7. *Commercially Driven Solar Financing Model*: concerns a project by a microfinance institution to provide loans for SHSs. Experience with this project highlights the importance of establishing realistic project timeframes, creating effective economic incentives for quality installation of SHSs, and seeking active partnership with relevant government departments.

The UNDP Report *Bringing Small-Scale Finance to the Poor for Modern Energy Services: What is the role of government? Experiences from Burkina Faso, Kenya, Nepal & Tanzania*; can be downloaded from <http://www.undp.org/energy>

For more information:

Mr. Minoru Takada; minoru.takada@undp.org
Head, Sustainable Energy Programme
Environment & Energy Group, UNDP, NY