

ACCESS TO WATER AND ENERGY THROUGH MICROFINANCE BY BUUSAA GONOFEE & WASASA MFI IN ETHIOPIA

1. DEVELOPMENT RELEVANCE

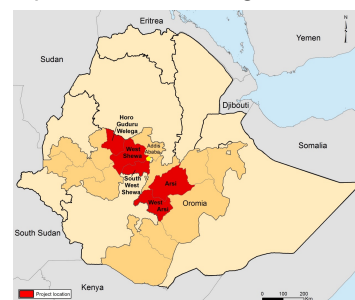
Economic and financial sector context: Ethiopia has one of the lowest financial inclusion ratios in sub-Saharan Africa. According to the World Bank Global Findex, in 2014 only 21.8% of the population was reported to have an account at a bank or other financial institution. This rate drops as far as 18.7% for rural populations and 15.9% for the poorest 40% of the Ethiopian people. According to the Global Findex, in 2014 only 7.4% of the population aged 15 and over had access to credit from a financial institution, and only 0.9% used ATMs as the main means of withdrawing cash.

Population and economic indicators ¹	
Population (in millions) (2014)	96.96
GDP growth (2014)	10.3%
Inflation (2015)	10.1%
Economic Freedom Index (2016) (rank among 185 countries)	148th score 51.5
Poverty indicators	
GDP per capita (current USD) (2014)	573.6
Gini index (0= equality 100= inequality)	N/A
International, national and rural poverty headcount rate	N/A

Banking density is still very low. The country's banking sector comprises one state-owned development bank and 18 commercial banks, operating under the licensing, supervision and regulation of the National Bank of Ethiopia. While the microfinance sector in Ethiopia is competitive, the potential demand for financial services remains huge, with only 31 MFIs providing services to 3.5 million depositors and 2.9 million borrowers as at June 2012 (according to MIX data).

Governance indicators (2014) (Score -2.5 to +2.5)	
Voice and accountability	-1.26
Political stability/absence of violence	-1.24
Government effectiveness	-0.47
Regulatory quality	-0.98
Rule of law	-0.42
Control of corruption	-0.43

Partner financial institutions: *Buusaa Gonofaa (BG)* was founded in May 1999 to run the microcredit activities developed from 1996 onwards by HUNDEE, a local NGO that implements community-based development projects in rural areas of the Oromia region. BG is a joint-stock company licensed by the National Bank of Ethiopia (NBE). BG offers group loans and savings accounts through a network of 29 branches located in major towns in the Oromia region and serves clients living in rural areas within a radius of 25 to 30 km of the branch. The MFI targets women, in particular, who represent around 70% of clients. As at December 2015, BG had a total outstanding loan portfolio of USD 12.9 million, and reached over 81,800 active borrowers and 101,850 active depositors.



BG and Wasasa both operate in the Oromia region through a combined network of 63 branches. This map identifies the zone of the project more specifically. Source: Olivier Santoni, FERDI

Wasasa MFI was established by the NGO known as Oromo Self-Reliance Association (OSRA) to assist poor communities in their efforts to escape the vicious cycle of poverty. It is a joint-stock company licensed by the National Bank of Ethiopia. Headquartered in Addis Ababa, it operates in the regional state of Oromia through a network of 34 branches, 20 rural outlets, and four regional offices. The great majority of Wasasa's clients come from the rural and semi-urban poor. As at December 2015, Wasasa had a total outstanding loan portfolio of USD 16.7 million, and reached over 78,200 active borrowers and 106,260 active depositors.

2. INTERVENTION APPROACH

Capacity-building needs: BG and Wasasa already had a great deal of experience in providing client-led financial services in rural areas, where access to electricity is still extremely limited and 98% of people are not connected to the grid. Their clients were asking for assistance to gain access to clean energy solutions. However, providing adapted products for such solutions differs considerably from the traditional microcredit business, and required the development of innovative partnerships and processes. Both MFIs therefore asked for technical support.

Main activity areas and outputs: The project supported BG and Wasasa with the development of adapted financial products and services to facilitate access to clean water and energy solutions for poor rural populations in Ethiopia. All activities were co-funded by UNCDF CleanStart. All activities and outputs were

achieved for the household segment. With the exception of an exploratory study, no activities or outputs were achieved in the MSME segment.

ACTIVITY 1 – (i) Energy and financial needs were assessed in September 2013; (ii) an assessment was also carried out of the market potential for clean energy for irrigation and agricultural processing.

ACTIVITY 2 – (i) Partnerships were set up with four different solar solution providers: Ries Engineering (Schneider solutions), SunTransfer (NIWA solutions), RENSYS (d.light solutions), and EverBright (Ethiopian solar home systems); (ii) a network of 20 village electricians was set up.

ACTIVITY 3 – Adapted financial products were designed: ‘Liqaa Solaarii’ (‘solar loan’ in the local Oromiffa language); adapted procedural manuals and related tools were also developed.

ACTIVITY 4 – Awareness-raising materials were developed.

ACTIVITY 5 – (i) Staff were trained on solar solutions, solar energy, and the solar loan product; (ii) staff were trained on financial education.

ACTIVITY 6 – (i) The project was implemented in nine branches and then extended to 14 additional branches; (ii) two evaluations were conducted, in March 2015 and in October 2015; (iii) a client satisfaction and impact study was conducted in March 2016 with 215 clients.

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level: Since the beginning of the project, BG and Wasasa have facilitated access to a total of 1,257 solar solutions for poor rural households in Ethiopia (78% pico-solutions and 22% solar home systems).

Studies conducted by PAMIGA have confirmed that the project has had positive effects:

- Improved access to quality solar solutions: MFIs played an instrumental role in providing information to rural households, pre-selecting for them a range of quality solar solutions with warranties and after-sales service, and therefore making them feel more confident about investing in solar;
- Improved lighting and living conditions;
- Reduction of energy expenditure;
- Some initial social effects: children are now able to study in the evening, health issues have declined, and there are opportunities for socialising in the village.



Clients of Wasasa

A quantitative study conducted by PAMIGA in March 2016 with a sample of 215 solar loan clients of Buusaa Gonofaa and Wasasa demonstrated that the provision of solar loans by MFIs has been instrumental in:

- Facilitating access to solar lamps for 92% of the households concerned;
- Totally ending the use of kerosene lamps in 40% of households;
- Extending the average hours of lighting from four to five daily;
- Reducing by 64% on average the energy expenditure linked to lighting and mobile phone charging;
- Making 70% of the households concerned believe that they no longer face any difficulty linked to their current sources of energy, be it in terms of cost, access, hours of power or lighting, health, safety, or study time for their children.

Three quarters of respondents were completely satisfied. The few respondents who were not satisfied with their solar solution mentioned that this is because they have faced defects with their kit, which took time to resolve.

Client profile #1: Zaynaba is an Ethiopian farmer and mother of five children. She lives in Tijo Kerensa, a village with no access to the national electricity grid. Earning less than USD 2.50 a day, Zaynaba and her husband do their best to provide better living conditions for their children. When her microfinance institution started to offer solar loans, Zaynaba did not hesitate: she submitted an application and was able to purchase a solar lantern in June 2015. The household then stopped using kerosene lamps, which Zaynaba considered costly, unhealthy, dangerous, and not bright enough for her children to study in the evening. Thanks to the solar kit, Zaynaba’s family has reduced its monthly energy bill from ETB 120 to ETB 40, saving around ETB 80 per month (EUR 3.50). Zaynaba has already finished repaying her 12-month loan without any difficulty, and is now thinking of applying for a second solar loan to invest in a larger solar solution for her household.

Quotes from solar loan clients: “Before, when I sneezed, it was all black and dirty [because of kerosene lamp’s emissions]. Now, it is not black anymore!” (Male client, Tulu Habib); “With kerosene lamps, my children could not see well. Now they can study more easily in the evening.” (Female client, Yeron Ama Tole) “I am proud, I have lighting like people in Addis! Many neighbours come to our place in the evening, we all enjoy chatting together.” (Male client, Yeron Ama Tole)

Partner financial institutions level: Both MFIs have clearly improved their capacity to manage and implement innovative financial products linked to access to clean energy. This is particularly clear at the top management level of each institution, where key decision-makers now have a very good understanding of the specific risks linked to energy lending and of adapted strategies to mitigate these risks. They now have the capacity themselves to identify and screen solar solution providers, as well as to negotiate and define fair cooperation arrangements, with only minimal support from PAMIGA. Both MFIs have perfectly integrated the features of the new financial product and are fully capable of training their own field staff on the characteristics and procedures associated with solar loans. By developing solar loans, Wasasa was also able to secure financing of ETB 7 million from the Development Bank of Ethiopia.



Clients of Buusaa Gonofaa

Financial sector level:

- 11 MFIs within the PAMIGA network are offering or developing access to clean energy; and 4,877 rural households have been able to invest in a solar solution.
- A joint PAMIGA/UNCDF event was organised in Ethiopia on 30 and 31 October 2014, where SCBF was represented by a senior SDC energy expert based in sub-Saharan Africa.
- A methodological toolkit and a course on rural finance and energy (Boulder Institute) were developed.
- Wasasa made a presentation during the Savings and Credit Forum organised in Bern in March 2016.

4. RECOMMENDATIONS FOR OTHER SIMILAR INTERVENTIONS

The adaptation of solar solutions to local needs is a key success factor.

- Solutions that proved successful in Asia did not automatically generate the same uptake in Ethiopia.
- In Ethiopia, several clients complained that the cables to connect the lamps to the battery were not long enough to reach all of their rooms. In reality, the solar solutions may not have been adapted to the traditional features of rural Ethiopian households, which are often composed of two or three small houses.
- Many clients also wanted to graduate quickly from small solar lanterns, and climb the energy ladder, requesting solar solutions with more lamps and other applications. To respond to these needs, the MFIs, which started with solar lanterns only, then decided progressively to include larger solar solutions and partner providers.

There is a constant need to adapt to the solar technologies market, which is evolving rapidly. Frequent changes and upgrades in solar technologies have their own effects on pricing, quality, and the management of client relationships.

It is essential to facilitate synergies between the worlds of microfinance and energy.

- Building strong local partnerships between MFIs and distributors of solar solutions is essential for the successful roll-out of such a model. The first months of operation showed that it is important not to underestimate the time needed to build understanding and trust between the different actors. MFIs and solar solution providers come from two different ecosystems that need to be united.
- Furthermore, MFIs and local distributors do not understand very well the constraints that may be faced by each partner. These differences in expectations and misunderstandings of each other's constraints have sometimes led to tensions between the partners. Such a two-hand model cannot be expected to be fully functional and sustainable right from the start, however.

Motivating MFI field staff is instrumental in achieving good results.

- Loan officers often perceive solar loans as complex and time-consuming. Managing these products requires greater involvement from field staff, in particular to coordinate purchase orders and deliveries, support clients with the installation of their kits, and educate them in the proper use of the solutions.

It is crucial to strengthen the solar solution supply chain.

- In addition to providing support to MFIs in developing adapted financial products for access to clean energy, it is also critical to strengthen the solar solution supply chain. MFIs' field staff end up assuming a variety of additional activities, ranging from delivery of the kits to training clients on the use of the solar solution and managing after-sales service. However, MFIs alone cannot do it all.

To bridge the gap between urban-based solar solution distributors and rural target clients, it is thus crucial to set up networks of last-mile agents (village electricians), located in the villages.

ⁱ Source of population, economic and poverty indicators: <http://data.worldbank.org/indicator> and <http://info.worldbank.org/governance> ; except for Economic Freedom index: <http://www.heritage.org>