



Sri Lanka: Credit to Connect

Grant-9045 SRI: Power Fund for the Poor

Project Loan: 39419-01/Loan-2518/2519 SRI: Clean Energy and Access Improvement Project

Through this project, ADB sought to aid poor households through a micro-financing scheme that provided them with the credit they need to overcome the high initial cost of connection to the local electricity grid.

Challenge:

With the proven development benefits of modern energy, electrification is high on the list of priorities for ADB's developing member country governments. Yet barriers to electrification can be insurmountable for the poor. The hardest to surmount may be the financial barrier. The high cost of initial connection to the grid means that even for the poor well in the service area, access to energy remains out of their grasp.

Affordable energy ensures a greater degree of access for all. In Sri Lanka, ADB had a clear point of intervention. While many villages were within distribution areas (the national grid), connection prices were a barrier to electrification.

To address this issue, ADB designed a \$1.5 million grant from the Japan Fund for Poverty Reduction. Titled "Power Fund for the Poor", this was a revolving fund created to support grid connections for poor households through micro-lending. From 2004 to 2009, this revolving fund, handled by local Sri Lankan microfinance institutions brought electricity to nearly 15,000 households. This success prompted the creation of a project component to extend the service while building upon the results.

Project Design:

Project Groundwork

- Upon the request of the Government of Sri Lanka, a \$3.5 million ADF loan component to scale up the Power Fund for the Poor was included in the Clean Energy Access and Improvement Project, a \$165 million project approved in 2009.

Supporting the Country Strategy

- The project supports the Government of Sri Lanka's own target of increased household electrification rate through grid connections from present 82% to 88% by 2016.
- Under this project the Ceylon Electricity Board, the national utility, will provide installment credit to poor households to pay for the upfront cost of connection.
- Average cost of connection is from 15,000 to 20,000 Sri Lankan Rupees (SLR) – roughly \$130 to \$170.

Proven Effectiveness of Loans

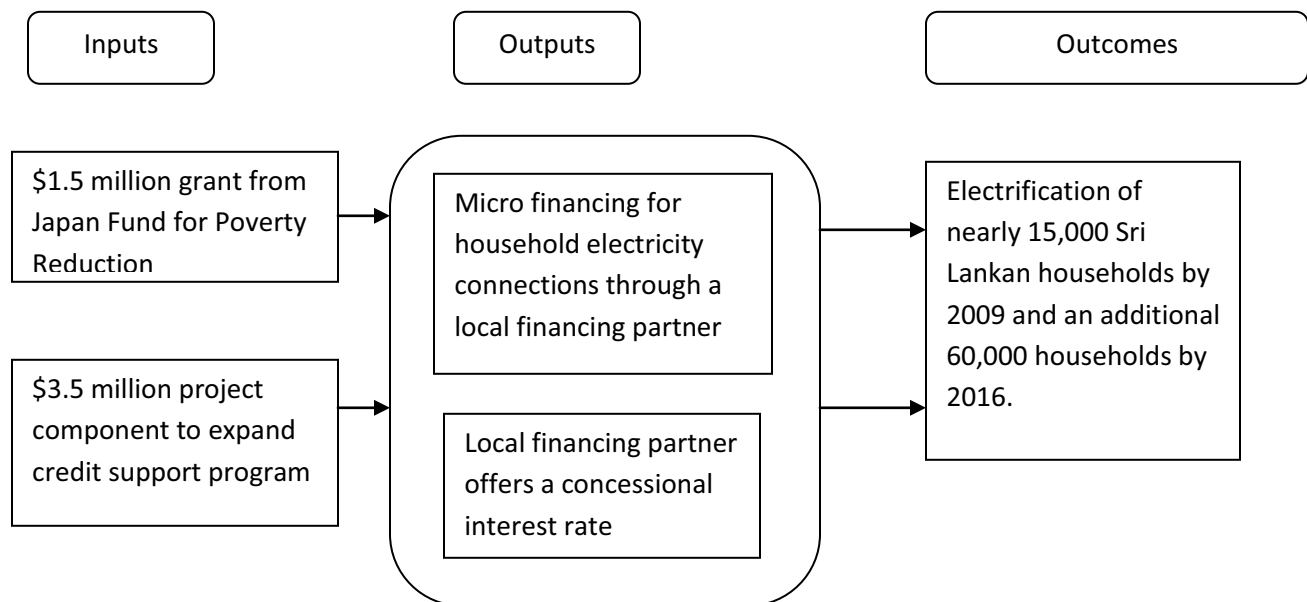
- Loans are seen as the key for poor households to overcome the high initial cost of connection.
- These households have the capacity to afford the connection fees if paid in monthly installments over 2-3 years, and thus have the ability to repay a similarly structured loan.

Energy for All

- The previous project maintained a recovery ratio of more than 95% for its loans, proving that this capacity exists.

Money Matters

- The scaling up of the micro-finance fund will be done through a loan-funded credit support program. The target is to provide electrical connections to at least 60,000 poor households (a four-fold increase from previous targets). This represents 8% of the total number of poor households.
- To qualify for a loan, the household must have an income of at least SLRs 6,000 – 7,000 a month and contribute 20% of the connection cost.
- Interest rate of microfinance partner was set at 16% per annum.



Lessons Learned:

- The right households must be targeted to ensure outreach while minimizing credit losses
 - This was the key lesson taken from the experience of “Power Fund for the Poor”: households must be capable of repayment but in need.
 - They should be in a village connected to the grid for at least a year, and be ready to invest at least 20% of the total cost for connection materials such as wiring.
 - There is also the risk of wealthier households with full capabilities taking advantage of loans in order to offset their own costs.
 - A “true picture” of household conditions is essential to avoid these pitfalls. Local partners frequently have this knowledge already.
- A local partner provides flexible operations – particularly in dealing with community concerns
 - The Sarvodaya Economic Enterprise Development Services (SEEDS), a microfinance institution, was the local partner in the implementation of the Power Fund for the Poor.
 - As an on the ground partner with an extensive network and experience in the project districts, SEEDS could be flexible to meet the needs of rural customers.
 - In the aftermath of a poor harvest, for example, SEEDS could waive interest charges or simply extend the repayment schedule for its farmer customers.
 - Cumulatively between 2004 and 2009, SEEDS disbursed over 14,000 loans totaling SLRs 235 million or \$2 million.
 - However, some issues arose when the Ceylon Electricity Board (CEB) was left with unpaid bills despite a paid connection loan.
 - The CEB is reviewing whether to take direct involvement in the new project in order to better manage billing and collection.

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Energy for All Initiative: <http://www.adb.org/Clean-Energy/energyforall-initiative.asp>

Read “Powering the Poor” the book that inspired this showcase at:

<http://www.adb.org/documents/books/powering-the-poor/default.asp>