



CASE STUDY 16: INDIA, SRI LANKA, AND VIETNAM - SELCO

Barriers	Lack of access to credit
Instrument	Vendor finance guarantees
Application	Organisation of funds for lending through local banks and MFIs and provision of buyback guarantees to participating lenders
Amount	n/a

PROJECT BACKGROUND AND OBJECTIVES

SELCO is a private US company with US, British, German and Swiss shareholders. The Company is headquartered in Chevy Chase, Maryland, and has three operating subsidiaries in India, Sri Lanka and Vietnam. SELCO was founded to:

- Provide clean, reliable, safe, and affordable solar power systems to households and businesses that have no other means of acquiring electricity;
- Provide the highest level of service to its remote and dispersed customers;
- Combine profitable operations with sustainable social, economic, and ecological development;
- Enhance the quality of life and improve productivity throughout rural communities in the developing world by replacing dangerous, dim, and unhealthy kerosene lamps and candles with electricity made from sunlight;
- Contribute to the reduction of greenhouse-gas emissions¹ by substituting solar power for carbon fuels.

SELCO subsidiaries in India, Sri Lanka and Vietnam focuses on bringing electricity in the form of SHS to rural and poor households without connection to electricity grid. SELCO's success in India was due to its commitment to providing high quality product through a one-stop-shop that assist customers with design to suit household needs and local manufacturing facilities, providing customers with after sale services and most importantly assisting customers to access credit.

SELCO assists customers in overcoming the access to credit barrier through its financing plan, which provides customers access to credit by local banks or micro-finance organizations.

INSTRUMENTS USED

In establishing its subsidiaries in the developing countries, SELCO uses funds available from international agencies, such as:

- Equity investment provided by E+Co for SELCO to expand its operations in India;
- Bank guarantee from E+Co allows SELCO to access funds for direct consumer financing;
- On-lending to end-users facilities from World Bank and Global Environment Fund (GEF), by working with IREDA;
- Conditional grants from Winrock International provided under the USAID Renewable Energy Commercialization project.

Loan from IFC SME program to put in place service centres in rural areas.

INSTITUTIONAL ARRANGEMENTS

SELCO partners with local and rural banks, leasing agencies and micro-finance organizations to provide its customers with affordable loans with lower interest rates. SELCO helps to reduce the technology risks by providing good after sale service and warranties on the technologies, which allows the local financing

institutions to provide the loans that the customers need to purchase the SHS.

Over 90% of SELCO sales use credit from an FI partner. SELCO has pioneered and employed several methods to engage local participating banks:

- Local banks loans are made on four to five year terms. Customer's monthly payments are typically close to the level of household's prior energy expenditures of 300 to 400 rupees (US\$6 to US\$9) per month;

- Using its own funds and in some cases grants funding, SELCO has paid banks a small closing fee for each loan closed; this helped address high transaction costs and keep loan pricing attractive for borrowers;

- SELCO also provided a small security deposit to the banks equal to two months loan payments; these funds were deposited with the lending and applied the borrower's last monthly payments. The deposit therefore performs two functions: added security for the lender and also an incentive to the borrower to complete their monthly payments so as to earn the discount represented by these funds. This method was further applied and elaborated by UNEP India Solar loan Programme.

SELCO also provides buyback guarantee to the local banks to repurchase the SHS systems from defaulted borrowers. This is a contingent liability, not on the SELCO's balance sheet.

OUTCOMES

SELCO has established subsidiaries in India, Sri Lanka and Vietnam, providing households in rural areas with SHS. SELCO has 32 customer service centres around the world to provide after sale services and other services related to SHS. SELCO is also franchising its delivery system and business model in association with local partners in various countries. The Company has installed over 13,000 SHS on a purely commercial basis.

Further reading

SELCO website – click [here](#)