



OPPORTUNITIES *for the* MAJORITY

## Fundación Covelo: Lighting the Way out of Poverty

### Renewable Energy for the Poor

Up to seven million low-income Central Americans live without power, largely because of the expense of extending the grid to rural areas. Many people burn kerosene, candles or wood, which can affect health and degrade the environment. Some families spend a large portion of their income to power diesel generators. Electricity is vital for workers and entrepreneurs to become more productive and climb out of poverty.

A new initiative is making clean, renewable energy available and affordable to families at the base of the pyramid in Honduras, El Salvador and Belize. With a \$3 million loan from the Inter-American Development Bank's Opportunities for the Majority Initiative (OMJ) and \$3 million of its own funds, Fundación José María Covelo is establishing a dedicated line of credit for microfinance institutions to lend to low-income families to buy photovoltaic systems. In an innovative arrangement, the systems serve as guarantees for the loans, enabling poor families with little or no collateral to buy them.

### Clean Solutions for Clean Power

Photovoltaic systems with a capacity of 50 to 100 watts can light three to four energy efficient light bulbs and recharge a cellphone or power a radio. Larger solar panels, or several linked together, allow families to power water pumps and refrigerators. These clean, standalone sources of power are ideal solutions for families living off the grid.

However, most people at the base of the pyramid cannot afford to buy a solar panel kit outright, and financing has been unavailable until now. What's more, proper installation and good maintenance are essential to ensure systems keep generating electricity over their 15 to 20 year lifespan. So far, companies have had little incentive to guarantee service in areas with few clients.

Fundación José Covelo—Covelo Foundation—is a non-profit organization with established ties to a network of microfinance institutions in Central America. With OMJ support, Covelo Foundation is creating a dedicated renewable energy line of credit for microfinance institutions in Honduras and El Salvador. The funds are on lent to clients who want to buy photovoltaic systems and need to use them as collateral.

Covelo Foundation is establishing partnerships between micro-financiers and reliable regional solar system distribution companies willing and able to service small systems in remote areas. Proper installation and maintenance is crucial for the systems to work and for clients to repay their loans.

### Partnerships for a Cleaner Environment

Loans to low-income families to buy photovoltaic systems are structured so they can repay the debt affordably within five years. Their only additional expense over the system's 15-20 year lifespan is replacing the rechargeable battery every three to five years.

Technical assistance will build Covelo Foundation's capacity to develop and promote dedicated solar energy lines of credit to microfinance institutions, and train loan officers to understand the product and extend loans to beneficiaries. It will promote partnerships between microfinance institutions and system suppliers to insure proper system installation and maintenance. Technical assistance will involve community leaders in promoting the photovoltaic systems, and will build awareness of solar systems, their installation and proper use among rural populations. Finally, it will provide assistance to help solar systems suppliers expand operations into Belize.

At least 6,000 low-income families in Honduras, El Salvador and Belize are expected to benefit from Covelo Foundation's program. Once the business model is well established in these countries, it can be scaled up to provide clean energy to thousands of other people in Central America.



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