

Provision of Renewable Energy Solutions for Rural Populations in Central America (RG-L1030)

Project Abstract

In Latin America and the Caribbean (LAC), there are approximately 90 million people living in rural communities that are unconnected to electrical grids. Though renewable-energy solutions that can meet family or business energy needs on a reliable and long-term basis exist in local markets, most providers operate on a “cash-and-carry” basis. Without financing options, access to these solutions remains limited for low-income rural communities.

The objective of the project is to provide rural populations that are cut off from the electrical power grid in Central America¹ the possibility to access a renewable energy source by packaging various technical solutions together with the required financing for their acquisition. The project is being sponsored by Fundación Covelo, which is planning to establish dedicated renewable-energy credit lines for microfinance institutions (MFI) within its network. These MFIs will then finance the acquisition of renewable energy solutions by low income families and micro and small entrepreneurs that need renewable energy for lighting, water pumping, refrigeration, and other productive uses.

Fundación Covelo is a privately owned, unregulated Honduran second-tier financial institution that serves the MFI market with operations throughout Central America. Fundación Covelo began its work in microfinance in 1991, using a solidarity group-lending model, with the objective of serving the poor in the micro- and small-business sectors. Over time, the organization diversified its portfolio and services and positioned itself as the leading microfinance institution in the Honduran market.

Even though there is a broad range of companies that offer renewable energy solutions in the region, few MFIs have designed appropriate financial products for their acquisition; leaving low-income, rural communities with little to no access to these solutions. The financial instruments offered by Covelo’s proposed credit line will include micro credit or micro leasing schemes depending on product characteristics such as type, useful life, feasibility of product replacement, etc. Furthermore, the micro credit lending conditions must take into account the effect the energy product will have on the client (the substitution effect and the income generation effect)

The Inter-American Development Bank (IDB) through its Opportunities for the Majority initiative (OMJ) seeks to provide Fundación Covelo a loan of up to US \$3 million in order to start this renewable-energy credit program. The project is consistent with the Opportunities for the Majority Initiative (GN-2430-7) because (1) it involves a partnership between the IDB, FCovelo, local and MFIs and renewable energy companies in the region and (2) it has the potential to be replicated in other low-income countries of the region and other parts of the world.

¹ Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, Belize and Panamá.