Marketing Solar Lamps: Emerging Lessons from Uganda

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For further information:
Aga Khan Development Network (AKDN)
1-3 Avenue de la Paix
1202 Geneva
Switzerland
Tel: +41 22 909 7200
Fax: +41 22 909 7291
E-mail: info@akdn.org
Website: www.akdn.org

The Aga Khan Development Network (AKDN) is a group of private development agencies working to empower communities and individuals, often in disadvantaged circumstances, to improve living conditions and opportunities, especially in Africa and Asia. Its agencies work in over 30 countries for the common good of all citizens, regardless of their gender, origin or religion. Its underlying impulse is the ethic of compassion for the vulnerable in society.

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First, there is no substitute for clarity and transparency; the microfinance model in particular suffered from the lack of both. Second, improving NGOs' understanding of the value chain is a first step towards enabling the design of sustainable business models without compromising the core social mission of these local NGOs. If managed responsibly, residual value from donor-funded projects can be potentially useful in marketing socially beneficial goods to communities where NGOs have already established a positive reputation and strong relationships. Third, it is impossible to dissociate the product from the marketing channel. Solar lamps have unusual advantages in terms of low cost and high benefits versus other products that might be sold through NGOs. It is therefore inappropriate to apply the lessons learnt in the marketing of solar lamps through NGOs to other products and marketing opportunities.

This case tests the proposition that organizations promoting Savings Groups can facilitate the development of new market channels for socially useful products in rural areas by linking existing networks of Savings Groups to commercial providers of these products. Social marketing through Savings Groups can create efficiencies and cost advantages without compromising the autonomy or performance of the groups.

Savings Groups
Savings Groups (SGs) refer to self-managed community-based groups that provide their members access to basic financial services. SGs are composed of 15 to 25 self-selected individuals who meet regularly (usually weekly or fortnightly) to save and, if desired, borrow for short periods, paying monthly interest at a rate set by the group. After approximately 12 months, all savings and earnings are distributed back to group members (often referred to as a share-out). The earnings usually are distributed in proportion to their savings. SGs respond directly to the unmet financial services needs of the remote and rural poor by providing: i) a secure place to save; ii) the opportunity to borrow in small amounts and on flexible terms; and iii) affordable basic insurance services. SGs aim to increase household financial assets and to decrease household vulnerability to financial and other shocks.

SGs are a simple, transparent, cost-effective and sustainable means of providing entry-level financial services to people who are too poor or isolated to be served by other financial service providers. For this reason, they are being actively promoted by leading international development agencies including CARE, Catholic Relief Services, Oxfam America, the Aga Khan Foundation (AKF), PLAN International and others including national and local partners. The number of SG members has grown rapidly to about three million people at the end of 2009, mostly in Africa, but with increasing numbers in Asia, including Central Asia, and a few in Latin America. SGs are complementary to other financial services; some SG members also use financial services from other providers.

Learning Initiative Objectives
This research study is one of a series of studies sponsored by AKF’s Savings Groups Learning Initiative funded by AKFC and The MasterCard Foundation. The Initiative examines how SGs are used as a platform for development activities and how linkages to other services take place and with what benefits to group members. It considers how financial services combined with other development activities add value for individual members of the groups, for the groups as entities in themselves, for the agencies facilitating SG development and offering the linked activities, and for the wider community. The Initiative also explores the sustainability and replicability of SGs.
A lamp purchase is just over a third of the typical annual savings in regions of Uganda where CREAM and UWESO work; therefore, for most members, a solar lamp is not a casual or trivial purchase. Without belonging to an SG, financing can be a potential barrier to purchase due to the price of lamps.

The Microfranchise Model: Initially, a UWESO staff member became a microfranchisee functioning as the intermediary between BASE Technologies and the UWESO field staff who acted as sales agents. The microfranchisee controlled the supply and distribution of the solar lamps and made decisions regarding commissions paid to the sales agents.

The implementation of this model was ad hoc and encountered several problems. None of the parties could produce credible records of sales and memories varied substantially concerning how many lamps were actually sold. There was no business plan, and the compensation for sales agents (CBTs) was inadequate. The microfranchisee captured most of the profit margin on lamp sales in order to cover his unsubsidized costs to purchase lamps and transport them from Kampala. CBT's nevertheless complained that their commissions barely covered the cost of selling and delivering the solar lamps to customers.

Neither BASE Technologies nor UWESO assured that local repair services were available, which meant customers were left without light as easily correctable solar lamp failures went unrepaired. As implemented, the microfranchise model focused primarily on sales, leaving a critical gap in the value chain that resulted in business failure.

NGO as Intermediary: CREAM took a different approach and inserted itself as an active intermediary between the wholesaler and the CBTs. CREAM negotiated wholesale orders, delivered the lamps, and supervised the sales. CREAM engaged existing staff and, in addition to their base salary, paid them a commission on lamp sales. This approach further confirmed the demand for lamps, opened new market channels, and provided rural people with a new and useful product. However, the fact that salaries of the agents were paid by CREAM with donor funds and that repair services for the lamps were not available made this model unsustainable in the long term.

The Village Agent Model: CREAM has since transitioned to a new model. In June 2010, many of their former CBTs transitioned into the new role of Village Agents, independent contractors who earn income from two sources: lamp sales to individual group members and fees paid by group members for training groups on SG operations. Currently, 18 Village Agents earn approximately two-thirds of their income from training groups and one-third from lamp sales.

Similar to UWESO, CREAM faces several constraints in the value chain. Since CREAM lacks the capital to maintain an inventory of lamps, the Village Agents request payment in full from each buyer before submitting an order to CREAM. On a monthly basis, CREAM deposits all payments received with BASE Technologies and places the order. Customers then face an additional wait of approximately two weeks for the lamp to be delivered. This system of payment requires the buyers to have a significant level of trust in the NGO.

Sustainability and Scale

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Both UWESO and CREAM aim to maintain contact with the SGs indefinitely, even after groups have achieved self-sufficiency. To assemble the necessary funds, purchasers can choose from multiple payment strategies, including cash out of pocket, loans from the SG, and funds from the annual SG share-out. The research uncovered two additional group-based methods of financing: interest free loans from the group’s social fund and the creation of a Rotating Savings and Credit Association (ROSCA) within the group. In the case of the ROSCA, members contribute a pre-determined amount at every meeting and use the collected sum to purchase a lamp for a different member at each meeting, enabling all members to eventually purchase a lamp.

The odourless, smokeless and safe solar lamp is a new experience for clients accustomed to the paraffin (kerosene) lamps used by ninety percent of rural households in Uganda, which pose various health and safety risks while providing minimal lighting. The social benefits of this product range from allowing students to read comfortably at night to saving beneficiaries’ money on the costs of paraffin and mobile phone charging. These savings have the potential to recover the purchase price of the lamp in less than a year. The proactive sales efforts coordinated by CREAM and UWESO were crucial in making this beneficial product accessible to SG members.

Marketing Solar Lamps

The study identified three different models used by SG networks as platforms to sell solar lamps. Each model uses CBTs as sales agents, but their management and incentive structures differ.
sufficiency. The NGOs consider their accomplishments and relationships with SGs as evidence of their credibility vis-à-vis donors and government. Marketing solar lamps, especially using the Village Agent model, provides CREAM and UWESO the ability to maintain their best personnel irrespective of donor funding. By building a cadre of experienced and effective CBTs, these local NGOs aim to cultivate one of their most strategic assets: networks of organized SGs. The Village Agent model generates sufficient support for Agents to stay in the field after grant funding has ended.

Both NGOs are engaging in a business with growth potential and positive development impact; however, to operate effectively in what inevitably will become a more competitive market, they have to participate in all the components of building a business, including finance, inventory management, sales and service. As the local NGOs broaden their participation in the value chain, measures should be taken to avoid the potential negative impacts of commercialization on the relationship between NGOs and SGs.

Lessons Learnt

The case highlights lessons for using SGs as a platform for social marketing. First, there is no substitute for clarity and transparency; the microfinance model in particular suffered from the lack of both. Second, improving NGOs' understanding of the value chain is a first step towards enabling the design of sustainable business models without compromising the core social mission of these local NGOs. If managed responsibly, residual value from donor-funded projects can be potentially useful in marketing socially beneficial goods to communities where NGOs have already established a positive reputation and strong relationships. Third, it is impossible to dissociate the product from the marketing channel. Solar lamps have unusual advantages in terms of low cost and high benefits versus other products that might be sold through SGs. It is therefore inadvisable to apply the lessons learnt in the marketing of solar lamps through SGs to other products and marketing opportunities.

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