



## GREEN ON-WAGE FINANCING

*Green On-wage financing is an innovative mechanism offering flexible and simple repayment terms for sustainable energy products through salary deductions.*

### OVERVIEW

Green On-wage financing is a consumer finance product designed to meet the short and medium term financing needs of salaried employees of public and private institutions that are profiled or have a business relationship with local financial institutions (LFIs).

First, LFIs enter in consumer finance agreements with technology providers and set up credit facilities. Parties agree on a rebate scheme of the amount of a minimum set percentage of the selling price of the selected products sold by the technology providers

to qualified customers. LFIs use the rebate received from technology providers to cover the financier's cost of funding to offer short and medium term unsecured consumer loans with 0 per cent interest rate, usually with tenor periods between 3 to 18 months, to qualified salaried employees. This typically supports small investments of USD 500-1500 corresponding to the sales of energy-efficient and climate-friendly systems.

Once a qualified salaried employee has successfully lodged a customer application with the selected



technology provider and received in return a pro forma invoice, the customer can proceed with the credit application directly with the selected LFI. Once approved, the financier is able to credit the account of the technology provider with the amount corresponding to the sales price of the selected product minus the rebate almost immediately from the receipt of the proof of delivery of the selected product.

In some instances, a take-back scheme can be integrated into the Green On-wage financing scheme where technology providers agree to cover both the amount of minimum percentage of the selling price of the product to be accorded to the customers in the form of a voucher or cash-back for future purchases and to contracted compliant e-waste management companies to cover the costs of collection, transport, treatment, and disposal of returned end-of-life eligible appliances. In this case, LFIs shall also receive a collection certificate from technology providers to proceed with the disbursement of credit.

Finally, consumer loan repayments are directly made from the customers to the LFIs and are either guaranteed by their profiled employers or deducted directly from the employees' after-tax salaries. There are different ways to structure the repayments:

- Employees of profiled employers who hold accounts with LFIs make repayments through their checking accounts at the end of each month. In the case of default, employers guarantee the repayments. In this case, the balance of due repayments are directly deducted from the salaries. Same conditions apply if the salaried employees leave the employers earlier than expected.
- Employees who hold accounts with LFIs agree to make direct reimbursements through salary deductions at the end of each month.
- Employers make the salary deductions for each employee and make a bulk reimbursement for all their employees to the LFIs at the end of each month.

## BUSINESS MODEL





## ROLE OF DIFFERENT ACTORS

The success of the model depends mostly on the interest and engagement of the LFIs and their number of existing profiled employer institutions.

Governments and development agencies can play important roles by providing technical support in setting up the model and ensuring compliance once operationalized

## BENEFITS & CHALLENGES

The biggest customer benefits of this model are the avoided upfront capital costs, and the ease of repayment. This can help motivate investments that may not otherwise happen.

Access to credit is facilitated and the loan terms offered by LFIs are more attractive for end-customers due to rebate negotiations with participating technology providers who wish to promote and sell certified premium products through the mechanism. In addition, the establishment of both robust and certified monitoring and reporting of customer applications, as well as measurement, reporting and verification (MRV) processes allows LFIs to align with the principles of green finance through the mechanism. Additionally, take-back schemes for proper collec-

tion, transport, treatment and disposal of discarded appliances can also be included, increasing both the incentives and co-benefits of this scheme.

Green On-wage financing facilitates the creation of a pipeline for sustainable energy investment, improves the monitoring and reporting of green loans and sales of energy products, significantly eases access to sustainable energy solutions, tackles the issues of collection and disposal of used products, and opens access to new green markets for partners.

The main risks and challenges to establish a green on-wage financing mechanism are:

- Engaging a committed and neutral institutional entity that is willing to support the transition towards sustainable energy and play a lead compliance role in Green On-wage in order to ensure quality and durability of the scheme in the market. This includes the on-boarding of additional participating LFIs and vendors, the certification and registration of sustainable energy products sold through the scheme on a positive list, as well as the tracking and measurement of robust co-benefits of the mechanism.
- Aligning market expectations with the environmental goals of the scheme by negotiating an ambitious but fair percentage of rebates from participating vendors to support key compo-





nents of Green On-wage such as enabling preferential financing from LFIs, providing incentives to end-users to return discarded appliances, and supporting the costs of collection and disposal of these, while letting market forces play the main role.

- Building on existing business relationships and agreements between LFIs and profiled employer institutions limiting the highest potential market share of the scheme and requesting as many participating LFIs as possible in the scheme to maximize its outreach.

## SUPPORT MECHANISMS

Green On-wage financing can be supported by bulk rebates negotiations or green credit lines from international financiers to LFIs to help offer the best loan features to end-consumers (e.g. low interest financing for up to 18-month tenor) and a viable green lending strategy. Green On-wage financing can be complementary with on-bill financing which would target both salaried and unsalaried customers from the energy utilities allowing loan repayments through electricity bills instead.

## ECOFRIDGES GO IN GHANA

The ECOWAS Refrigerators and Air Conditioners Initiative (ECOFRIDGES) is a joint project by BASE, the Government of Ghana and the United Nations Environment Programme's United for Efficiency (UNEP U4E) initiative, with the support of the Kigali Cooling Efficiency Programme. In collaboration with regional and local partners, ECOFRIDGES aims to accelerate adoption of energy-efficient and climate-friendly domestic refrigerators and room air conditioners, saving consumers money on their electricity bills, relieving demand on the power sector, and mitigating impacts on the environment. A cornerstone of ECOFRIDGES is a Green On-Wage (GO) financial mechanism to

help make these cooling products more affordable.

Through ECOFRIDGES GO, by 2023, local financial institutions aim to unlock at least USD 11 million in financing in Ghana to support the purchase of over 15,000 more sustainable cooling appliances and entice the replacement of old existing equipment. The project includes the proper collection and disposal of used appliances, product testing, policy considerations, capacity building, and promotion and awareness campaigns. It sets strict energy performance requirements and limits on the refrigerants of participating products to keep a lid on greenhouse gas emissions.

### ABOUT BASE

BASE is a Swiss Foundation and a Specialised partner of UN Environment. BASE develops innovative, actionable financial strategies and market-driven solutions to unlock investment in sustainable energy and to tackle climate change. Around the world, BASE works with all markets and segments including those that are challenging and underserved.

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