

Coping with shock: Last-mile distributors and COVID-19

Energy Insight

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Introduction

The COVID-19 pandemic and associated economic shocks have presented enormous challenges for energy access companies and the customers they serve. Last-mile distributors (LMDs) have been affected more than most. Challenges vary, from issues with procurement and logistics, to a shortage of working capital. A number of LMDs have been able to freeze their operations while the situation plays out, and some of those are now beginning to resume operations in countries where restrictions are being eased. But some smaller and less prepared LMDs have already closed, and there is a real risk that others will follow. If this trajectory continues it means last-mile consumers will find it even harder to secure the critical products that LMDs provide, and the Sustainable Development Goals (SDGs) energy access targets will increasingly be out of reach.

The [Global Distributors Collective \(GDC\)](#) is a collective of LMDs from around the world. The GDC is dedicated to supporting distributors to reach underserved customers with life-changing products, and to developing the last-mile distribution sector as a whole. The GDC has over 160 members in more than 45 countries, who have reached over 25 million people with clean energy products, such as solar lights and clean cookstoves, as well as other beneficial products like water filters and agri inputs.

Since March, the GDC team has been supporting its members to cope with and adapt to the COVID-19 crisis. This has included providing technical assistance, helping members access relief funding, and generating and curating resources through a dedicated [resource page](#).

This Energy Insight provides an overview of the impact of COVID-19 on LMDs, how they have responded and adapted to the new reality, and what support they need to survive and bounce back more resilient than ever. This will not be the last test the sector faces, and in many ways it represents an opportunity for LMDs to evolve and become more resilient, putting them in a stronger position to face future shocks.

LMDs: critical actors in the energy access sector

LMDs play an essential role in accelerating the adoption of affordable, clean energy solutions for households and enterprises in developing countries.

LMDs are deeply embedded in last-mile communities, with strong local networks and a deep understanding of end consumer needs. The GDC's [State of Sector report](#) found that LMDs create access for low-income and remote populations, with GDC members having cumulatively reached over 23 million people, 75% of whom live in poverty and 44% of whom live in extreme poverty (GDC, 2019). LMDs also play a key role in creating jobs at the last mile, often targeting women.

A crucial value-add of LMDs is their ability to build markets. They are often the first movers in last-mile communities, and tend to use sales agent networks and 'below-the-line' marketing strategies (whereby customers can experience the benefits of a product first-hand) to overcome risk aversion and create

demand for unfamiliar products like solar lights.¹ They leverage their trusted relationships to encourage behaviour change, enabling the adoption of complex products like improved cookstoves.

In some cases, initial purchase of an entry-level energy product may also create demand for subsequent purchases. Once pay-as-you-go products are paid off they can potentially be used as collateral, and the payments create a credit history, which can be leveraged to access additional products and services. In this way, LMDs also generate opportunities for other kinds of companies to enter markets and sustainably serve low-income consumers.

LMDs are, for the most part, committed to quality, both in terms of products and services, with 69% of LMDs offering consumer financing and 65% offering warranties (GDC, 2019).

¹ 81% of LMDs use sales agent networks. In terms of marketing tactics, 93% use community demonstrations, 82% use door-to-door

demonstration, and 72% use flyers, all of which are 'below-the-line' activities (GDC, 2019).

COVID-19 is having a severe impact on LMDs and their customers

COVID-19 has hit the energy access sector hard, and threatens to undermine both the industry's achievements and its potential to achieve SDG 7.

Findings of LMD survey

A survey of GDC members carried out in March–April 2020² highlighted that for the most part the impact on the LMD sector is severe, but the picture is nuanced:

- 69% reported experiencing reduced sales due to reduced customer income and/or reduced access to communities. 10% reported experiencing supply chain disruptions;
- 17% said they had ceased operations completely;
- 7% said they had not yet been affected; and
- 7% reported experiencing increased sales.

The vast majority of LMDs have scaled back or ceased operations completely because of government lockdowns, reduced access to communities, and/or precautions that members themselves are taking to protect their staff and customers. Many LMDs work with community partners such as schools or cooperatives for customer education, marketing, and lead generation, and these activities have been dramatically affected by school shutdowns and social distancing measures. Many LMDs are also having trouble procuring stock because of affected supply chains, e.g. products getting stuck at port.

Some LMDs have been exempt from lockdowns and allowed to operate under the classification of essential service providers. In countries that have not implemented lockdowns – and others that have now lifted lockdowns – some LMDs are trading while adhering to social distancing and taking other precautions. But many are in hibernation mode, and their immediate priority is conserving cash.

A survey carried out by EnDev (2020) in 23 countries in May, involving about 700 companies, confirms the dire impacts of COVID-19 on small and medium-sized

enterprises in the energy access space. The survey findings show that 75% of companies are severely affected, with 29% having ceased operations altogether. Only 25% expect to be able to cope with an extended COVID-19/lockdown period beyond three months (with 30% only having capacity to survive a few weeks).

Results from a survey by the Clean Cooking Alliance (2020) with over 100 clean cooking enterprises in April paint a similar story. 30% of enterprises have ceased operations, and two-thirds stated that they were expecting moderate to severe disruptions due to COVID-19. More than two-thirds of enterprises said they have less than three months of operational capital, with less than 10% having the capacity to withstand more than five months of COVID-19 impacts.

In general, LMDs report lower customer demand as a result of reduced incomes. This is echoed by recent data from 60 Decibels (2020), which shows 86% of off-grid customers report their financial situation as being either 'much worse' (42%) or 'slightly worse' (44%) as a result of COVID-19.

'Our clients are now not able to purchase as their earnings have been reduced or curtailed.'

LMD in Uganda

'Business will be greatly impacted since most are now focusing on food purchases and not durable goods.'

LMD in Kenya

Additionally, among the many LMDs that sell on credit, more customers are missing repayments, increasing default risks and exacerbating working capital constraints. Again, this is backed by 60 Decibels data, which highlight that only 66% of off-grid customers are making payments as they normally would (60 Decibels, 2020).

However, these challenges are not common to all LMDs, and the situation varies significantly across as well as within countries. Some LMDs, such as Sistema.bio (Mexico, Columbia, India, Kenya) and Mwezi (Kenya), report that demand has remained stable or increased. This is reportedly due to people spending more time at home (therefore seeking

² Survey carried out with 29 GDC members between 25 March and 11 April 2020.

lighting and entertainment products), stockpiling essential goods (particularly cooking fuels), or being disconnected from services (increasing their need for products like water purifiers). Mukuru in Uganda has suggested that because men are at home more due to lockdowns, they are fed up with smoke in the home and are finally ready to buy clean-burning stoves.

COVID-19 is having a disproportionate impact on women staff and customers

There is evidence that women and girls are particularly adversely affected by the COVID-19 crisis. As research from ENERGIA (2020) states, the crisis is ‘highlighting and magnifying inequalities and the multiple and intersecting forms of discrimination that women and girls face, including in the energy sector’.

This is echoed by reports from LMDs, who say that female staff and sales agents are disadvantaged because they are carrying the bulk of home and childcare responsibilities, and this affects their ability to do their job and earn income. For example, female sales agents are less mobile because they are not able to leave or travel far from home, and/or because they tend to rely on public transport and are less likely than their male counterparts to ride motorbikes or bicycles. This reduces their ability to generate leads and make sales. Female call centre agents, who need to be in a quiet place to effectively treat customer calls, are not able to carry out their jobs as effectively because they are more likely than male agents to be disturbed by family members.

On the customer side, women in last-mile communities are reportedly earning less and saving less, and are more at risk of losing their jobs. As ENERGIA has noted: ‘Informal sector and low-income, female-headed households and women living in rural and remote areas, are among the most vulnerable groups affected by social distancing and unemployment... This will have an impact on their capacity to pay their electricity bills, leaving them at risk of disconnection during the crisis and further impacting their livelihoods, income and family welfare’ (ENERGIA, 2020).

Data from 60 Decibels (2020) also suggest that women customers are disproportionately affected, with women more likely to report that their financial situation is ‘much worse’ (48% of women vs 39% of men); that they are less likely to have borrowed money to cope (52% of women vs 66% of women);

and that they are less able to make repayments than they normally would be (59% of women vs 68% of men).

LMDs are focusing on supporting staff, agents, and customers

In situations where staff or agents are unable to work, LMDs report trying to keep them on the payroll, both so they can continue to support their families and so LMDs can retain their business capacity. It is particularly difficult to pay agents whose incomes are commission-based, and to keep staff engaged and motivated. But LMDs are finding creative ways to manage: for example, by deploying field staff in other areas of the business and developing remote customer support capabilities.

‘We are paying for staff even though they cannot work... we are burning through working capital while we have no revenues.’

LMD in Latin America

Most LMDs are maintaining communication with customers and actively keeping them informed about the crisis, including sharing information about preventative measures – for instance, through SMS texts.

Many LMDs are exploring how to re-organise payment terms, or delay payments, for customers experiencing hardship. ATEC* in Cambodia, for example, has introduced flexible payment terms to help current customers continue to pay off their products and help new customers obtain a system for the first time (Harwig, 2020).

LMDs are adapting their business models, in particular through digitisation

LMDs are being forced to innovate their models, and quickly. For some, these are short-term adaptations to respond to virtual working and reduced customer demand, and are not feasible or necessary long-term pivots. But many LMDs are taking advantage of this difficult period to harness strategic long-term opportunities. One of the best examples of this is the increasing digitisation of the sector. Some LMDs that usually rely on in-person marketing are turning to radio, TV, printed and online press, and community/loudspeaker announcements. One LMD

has set up a consumer referral programme via SMS, to compensate for lost leads from word-of-mouth marketing.

Some LMDs are also testing e-commerce solutions and sales via call centres, delivering products by post, and providing customers with remote support.

Examples of LMDs that have adopted e-commerce solutions

Easy Solar, a distributor of solar products in Sierra Leone, has developed an online platform which enables wealthier Sierra Leoneans and those abroad to purchase products for locals online, with delivery and pickup from any of its 21 shops nationwide within 72 hours.

Essmart, which distributes more than 150 types of beneficial products to retailers in India, has developed an e-commerce platform to sell products to urban Indians, with every purchased product directly benefiting rural shops in Essmart's distribution network that are unable to operate due to lockdown.

Frontier Markets in India, which distributes beneficial products and services to rural households through a network of women entrepreneurs, has built an e-commerce platform to serve villages in Rajasthan. Frontier Markets has also adopted a subscription model, whereby customers receive weekly delivery of goods from field staff.

E-commerce has a range of benefits: it can give last-mile consumers more choice, save them time, and help make beneficial products more affordable by reducing the need for costly 'below-the-line' marketing. It also provides LMDs with a way to capture customer data, to inform marketing tactics, customer service strategies, and product baskets. And the COVID-19 crisis may change consumer behaviour permanently, making online sales a more viable option for LMDs than it was before. Ultimately, LMDs operate in uncertain and complex environments and diversification to online channels is one way to build more resilient models.

LMDs are leveraging their distribution infrastructure to deliver critical supplies

Many LMDs are supporting the pandemic response by delivering critical energy services, including lighting, telecommunications, pumped water, cooling, and cooking to vulnerable households that are under lockdown and observing social distancing.

Some LMDs are also playing a role in distributing emergency supplies – in many cases free of charge. For example, Safeplan Uganda and Deevabits Green Energy in East Africa are purchasing personal protective equipment for last-mile customers and staff. Pollinate Group is working with non-governmental organisations to distribute food parcels to urban slum communities in India. SolarAid is working with the ministries of health in both Malawi and Zambia to provide thousands of solar products to rural health clinics. Other LMDs have reported giving solar kits to health workers at COVID-19 check-points, and distributing water filters to communities whose basic services have been cut off. In order to play this role LMDs are either using their own funding or raising grant funding – particularly from the public and philanthropic foundations.

Some of this work is being done in collaboration with national governments. However, LMDs have reported that there is scope to scale up their support for the crisis response, and to leverage their ability to reach and communicate with customers at scale.

LMDs need urgent support to weather the pandemic and to bounce back

LMDs are positioning themselves to rebound as quickly as possible when the situation eases – indeed, in some countries LMDs are already in recovery mode. As well as focusing on staff and agent retention, many LMDs are building up stock supplies, particularly in field locations close to customers. Many are continuing with their marketing activities, aware of the need to exercise sensitivity given the challenges that poor consumers are currently facing. More than ever, LMDs are focusing on unit economics and finding ways to operate as leanly as possible.

However, most LMDs are small local companies with little or no reserves. Many report needing support to prevent them from becoming insolvent, to protect jobs, and to ensure business continuity, so that ultimately they can continue to create lasting impact

in last-mile communities. Two types of support are needed: technical and financial.

LMDs report needing **technical assistance** in digitising operations, providing remote support to customers, and testing new types of marketing so they can continue to operate. Support with crisis management, and increasingly planning for recovery, would also help, so they can identify areas for both cost-cutting and continued investment to protect their business capacity.

CGAP is one actor which has stepped up to support LMDs during this time: it has partnered with the GDC to help six LMDs to access technical assistance from the Frankfurt School of Finance and Management. Similarly, GET.invest has opened a special '[COVID-19 Window](#)', which several LMDs have successfully accessed, to provide clean energy businesses with free-of-cost advisory services.

Relief funding is also desperately needed. Some LMDs have been successful in raising relief funding, particularly through crowdfunding platforms (for example, Pawame and SolarAid). A small number of dedicated relief facilities have been established which have supported LMDs, such as the [Truss Fund](#), managed by Beneficial Returns, and AECF's [REACT Kenya Relief Fund](#). Some LMDs have also been able to negotiate extended or delayed payment terms on existing loans or stock purchases.

Acumen, SunFunder, and responsibility, among others, are working to capitalise an [Energy Access Relief Fund](#), a US\$ 100 million concessionary debt facility to provide emergency loans to companies. This will provide much-needed liquidity to many energy access companies. However, because the Relief Fund will have a US\$ 200,000 minimum relief loan threshold, based on annual staff costs, it will only be accessible to a specific segment of the market, and will be out of reach for the vast majority of (if not all) LMDs. Additional micro-loan and grant support mechanisms are required to help smaller companies, and to protect their crucial role in expanding energy access to underserved regions and countries.

Conclusion

The COVID-19 crisis has put the SDG energy access targets in jeopardy. Last-mile households are less able

to purchase clean energy products and services, and a significant proportion of LMDs have ceased or slowed their operations.

LMDs play an essential role in bringing vital energy services to the world's poorest, and are strategically positioned to help with the COVID-19 response, but they need help both to weather the storm and to become more 'future-proof'. To this end the GDC has recently launched an [Innovation Challenge](#) to test ways of building resilience in LMD business models, but much more support – both technical and financial – is needed.

Nonetheless, the response of LMDs to the global COVID-19 pandemic has demonstrated their determination and ability to adapt, even when faced with the greatest adversity. It has also demonstrated the important role that LMDs play in building community resilience to external shocks, and helping respond to those shocks, including economic and public health crises.

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