



# AFTER-ACTION REPORT: VITALITE ZAMBIA



## SUMMARY

In September 2016, USAID—as part of its commitment to Scaling Off-Grid Energy (SOGE) Grand Challenge for Development—awarded **VITALITE Zambia Limited** (VITALITE) \$300,000 through the **Development Innovation Ventures** program to continue developing the first pay-as-you-go (PAYG) solar home system (SHS) business model in Zambia, launched earlier that year. VITALITE is a Zambian company founded to increase rural electrification rates and combat poverty, with the goal of becoming the leading last-mile distribution and service company in Zambia. As of mid-2018, the company had sold over 12,000 SHS units, opened 18 sales and service centers, and is operating in 7 of the 10 Zambian provinces. It is now rigorously pursuing expansion, both in terms of its sales markets and regions in Zambia as well as the range of product offerings (e.g. improved cookstoves, smartphones, agricultural inputs and equipment, and a water-carrying cart). Since the completion of the grant, the company has worked to maintain its first-mover advantage in the Zambian SHS market, as other companies have begun sales in the country (one of which was with SOGE/USAID support).

USAID's grant to VITALITE coincided with the early stages of the company's post-validation scaling and aimed to support VITALITE in addressing the Zambian PAYG solar market, which they estimate at 1.7M households, representing \$245M in potential annual revenue. To reach this market, the company would have to overcome customers' inability to pay upfront (cash and carry) for SHS, requiring longer term financing for the majority of the population, a lack of awareness about the benefits of solar home systems, and limited uptake/slow adoption of mobile money relative to East Africa. Through the grant, VITALITE continued expanding with a particular focus on tracking/managing default rates and introducing additional appliances and products (e.g. televisions) to meet consumer demands.

**INSIGHT:** In markets with low rates of disposable income, companies must accurately assess repayment risk, build in allowances for that risk, efficiently manage default, and institute flexible payment plans and relaxed penalty thresholds.

In Zambia, customers have very little

disposable income which results in many missed payments (although this improves at harvest time). VITALITE manages this risk through relaxed penalty thresholds and flexibility with the length of loans. VITALITE prices in a small buffer for missed days each month and applies small penalties according to the number of days

## KEY FACTS

**Date of award:** September 2016

**SOGE Grant:** \$300,000 USD

### Grant Milestones:

- Create 6,900 new customer connections
- Raise \$1.5M in new debt, equity or grant funding
- Establish 8 rural sales hubs

**Timeframe to achieve milestones:** 18 months

**Milestones achieved?** Yes

**Milestones exceeded?** Yes

### Results:

- In 18 months, VITALITE's sales nearly doubled its connection targets, selling via a network of more than double the target number of sales hubs.
- VITALITE succeeded in raising \$2M in results-based grant funding from the Government of Sweden's Beyond the Grid Zambia fund.
- As sales in Zambia continue to grow, and the company is now directly or indirectly expanding into two new country markets, USAID is quite pleased with the success VITALITE has experienced scaling its locally-driven business model.

missed (ensuring the company recovers the present value of the payment). As long as the customer keeps paying something, even during the lean season (December to May in Zambia), demonstrating commitment to paying the system off, VITALITE can continue to commercially service these underserved households. VITALITE also partnered with MFinance (an MFI) to sell VITALITE products via salary deductions, which can help customers budget appropriately.

As the company's PAYG model is based more on asset-backed lending principles rather than microfinance personal loans, VITALITE uses five key metrics to assess payment risk: PAR or portfolio at risk (30 consecutive missed days), delinquency (90 consecutive missed days), charge off/write off (180 consecutive missed days), severity rate of the charge off, and utilization rate (number of days paid versus owed). By comparing ratios between PAR, delinquency and charge off, VITALITE is better able to evaluate servicing performance and gain greater insight into risk, enabling evidence-based decision making around servicing of customers.

**INSIGHT:** Underserved and low disposable income markets require a long-term, local commitment

Key to VITALITE's success in Zambia has been:



PHOTO: VITALITE

- A systematic, consistent, and committed approach to change a customer/community mindset from poverty and dependency driven to one of self-help.
- Aligning the right type of products and pricing with customers' ability and willingness to pay.
- Use of donor funding and as many local staff as possible to improve financial sustainability.

**INSIGHT:** SHS companies must invest in building staff capacity and reward performance to improve retention, productivity and efficiency

VITALITE invests significantly in staff development. They identify high-potential candidates and reward performance based on clear criteria. VITALITE builds capacity and skills through an intensive induction training and regular workshops, and has established a company culture around the "PPP+" principles of Professional, Proactive and Productive, with high attention to detail. In order to ensure management oversight across a geographically dispersed workforce, VITALITE uses field staff tracking software to optimize servicing and field staff

performance.

**INSIGHT:** Diffuse last-mile distribution requires regionally-based technicians, dedicated vehicles, strategic procurement and warehousing, and product diversification to offset the distribution network's high costs

- To reduce turnaround time for repairs, VITALITE shifted from a centralized to a regional technician approach and switched from service staff on motorcycles to dedicated pickup trucks.
- To ensure stock-outs do not occur, VITALITE set a defined procurement schedule with all suppliers, and partnered with Total Zambia to procure and warehouse product.
- VITALITE also distributes other value-add products to add revenue and improve their bottom line. VITALITE is doing this via their agro-solutions line, distributing inputs in exchange for commissions for agri-input companies on layaway (similar to MyAgro in West Africa) and the SF2 solar-powered irrigation water pump in partnership with iDE.