Summary for Decisionmakers

Business Forum for Decentralized Energy in Developing Countries

Minigrid companies are central to Africa's energy future and can make achieving global goals a reality by 2030 with the right business environment. Here is how donors can help make this happen:

1. **Large, donor supported patient debt, equity and results-based financing tools are needed to bring in other financiers and to allow proven models to scale.**
2. **Donor support is needed for de-risking tools such as off-taker risk guarantees, and political and forex risk mitigation, to allow companies to truly deliver last mile / universal energy.**
3. **Building demand alongside supply is needed. Donor support for economically productive local activity is urgently needed in the form of microfinance and entrepreneurship support.**

On 2 October 2018, regional energy centers, multilateral banks, bilateral donors and nearly two dozen leading off-grid energy companies gathered to develop guidance for the international community on bringing universal energy access in Africa. This document outlines the results of these discussions.

The Problem

In African costs per connection for mini-grids have dropped by 20% over the past two years, and on average are now well below those of Sub-Saharan African utilities. Mini-grids also provide vastly superior quality and quantity of energy to rural communities than national utilities do in most of these countries. For these reasons mini-grid firms not only have the potential to drive transformational economic growth and end energy poverty in Africa but are the least cost option to do so.

Despite this potential, minigrid developers in Africa are facing near-term existential threats due to lack of long-term capital. All firms in this sector face two categories of risks that make financing a challenge:

- **Where they are doing business** - countries with either unstable or inadequate political and regulatory environments that make capital either extremely expensive or unavailable; and
- **Who their customers are** - poor people whose ability and willingness to pay makes revenue either unpredictable, or predictable but too low to be economically attractive.

Despite these perceived risks, customers' ability and willingness to pay is high - provided services are reliable and predictable. Indeed, investment in decentralised renewable energy is a more reliable investment than national grid networks in areas where they cannot provide good service. Yet minigrid firms – even if they have the potential to be genuinely catalytic and game-changing for local and national economies – find it very difficult to raise financing to move beyond pilot stages.

Taken together, this means the finance needed to achieve the dozen SDGs reliant on energy is simply is not available, and accordingly the businesses designed to deliver on the global community's sustainable development objectives never get the opportunity to do so.

The Solution

Concretely, to support energy access in Africa and also to boost the creation of new local companies and jobs, we urgently need donor efforts and investment to flow into two broad categories:

Good development is good for business: serving the world's poor as customers without exploiting them means support is needed to lower prices to an affordable level, and/or to raise incomes to a point where poor people can afford life-changing energy services. In other words, market building, not only business-building support is key. Hence there is an urgent need for financial support in two important categories in addition to tools currently available:

- **Clear, reliable support is needed on the business side to send trusted market signals to financiers** – We cannot have yet another year of leading minigrid companies struggling to finance only five or six new sites when thousands per year are needed to accomplish global goals. Mini-grids are infrastructure and should be financed as such. Hence, we urgently need:
  - **Large, donor supported patient debt, equity and results-based financing tools (billions each) to allow existing businesses to grow and deliver results.**[1]
  - **We also need de-risking tools such as off-taker risk guarantees, and political and forex risk mitigation tools to help bring in semi-commercial and commercial lenders.**
  - **Donor supported venture funds to support new - and scale successful - ideas.**

  This is the only way we will see companies with successful tracks records who are now are too big for seed funding but too small to access investment capital, really have a chance at succeeding on their – and our – goals for rural electrification.

- **Business training and asset finance on the community / local entrepreneur side** – households using energy only for lighting will never repay a mini-grid. If this is all a household can afford however, or is the only energy technology they have easy access to, we will not see the change needed to achieve the SDGs. We must focus on building demand for energy by either raising local incomes through productive use training and micro-finance, or by finding ways to cross-subsidize energy costs not only within national utilities as it is done today – but across energy service providers as well. Concretely:
  - **Community and business support for each energy investment – e.g. microfinance and entrepreneurship training. We must build demand alongside supply.**

Hearts and minds: Today it is unfortunately a reality that utilities, ministries, MDBs, and indeed many bilateral donor offices at the national level do not adequately understand the decentralised energy space and how far it has evolved in recent years. We urgently need the EU to support an evolution in this thinking. As all bilateral cooperation partners and MDBs work alongside national government priorities and plans – we need your support in building up local support for decentralised renewables.

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[1] See Acumen (2018). Accelerating Energy Access: The Role of Patient Capital.