

REPORT

Directorate General for Development and Cooperation - EuropeAid

Empowering Rural Electrification

Workshop

29-30 September 2014 – Venue: Hotel Le Plaza Brussels

Key messages

- ElectrIFI is a model proposed by the private sector and EDFs that the European Commission has put forward to a larger consultation.
- The initiative will guarantee active involvement of the private sector as well as long-term sustainability and leverage. This will target a larger group of beneficiaries.
- Comments and recommendations received are of utmost relevance to build up a solid and long-lasting partnership between the public and the private sector. These comments and recommendations will be reflected in the revised ElectrIFI Working Document that will be distributed shortly.
- The discussion will have to continue with the representatives of the Member States of the EU.

Introduction

The 'Empowering Rural Electrification Workshop' was opened by Christopher Jones (Head of Cabinet), on behalf of Commissioner Piebalgs, who warmly welcomed participants, adding that the Commissioner considers the event extremely important in the drive to achieve the goal of providing access to energy for all by 2030 – a drive made possible by United Nations Secretary-General Ban Ki-Moon, whose personal commitment and vision produced the Sustainable Energy for All (SE4All) initiative.

Mr Jones raised the absolute necessity of access to clean and affordable energy for sustainable development and underlined the commitment made by President Barroso in April 2012 aiming at providing access to sustainable energy services for 500 million people by 2030 in developing countries. As a step towards this objective, the EU aims to allocate more than EUR 3 billion, leveraging EUR 15 billion additionally in supporting sustainable energy. At the Climate Summit in New York on 23 October, the EU built further on energy commitments by signing Joint Declarations with five partner countries. These important statements of intent will pave the way for enhanced cooperation and give our energy cooperation activities a real boost.

Despite these efforts, it is evident that there is a need for scaling-up in order to meet the SE4All energy access target. The need for clean and renewable energies is urgent as the world's

population continues to grow and rural communities still find themselves held back by rampant poverty. Meeting the SE4All initiative will require massive investments. Estimates put the figure at a staggering 48 billion dollars per year. It is evident that donors alone cannot provide the level of financial resources to meet the energy access goals and development needs. Instead, there is an urgent need to adapt our business model if we are to get tangible results in terms of moving towards universal energy access.

It is to contribute to meeting these needs that a proposal for the Electrification Financing Initiative, **ElectriFI**, has been elaborated. ElectriFI aims to accelerate access to (rural) energy in developing countries by boosting private sector to yield business opportunities. ElectriFI aims at increasing the leverage of the EU efforts and resources as well as at ensuring sustainability through establishing a real partnership, geared by economic results, with beneficiaries and stakeholders. Unlike past support initiatives and apart from increasing leverage and sustainability, ElectriFI, by closing gaps created by market failures in the rural electrification finance in developing countries, will also provide for the repayment of the EU support in case investment projects will be successful. Funding from thematic, national or regional envelopes in particular for countries and regions having selected energy, and access to energy, as a priority objective for their cooperation with the EU may be allocated to ElectriFI. Other donors and impact investors could also partner and contribute to this initiative whilst, in due course, a funding platform may provide additional resources. ElectriFI will also establish links and synergies with any other parallel programmes and schemes promoting private sector investments in energy and energy access, in order to deliver the expected results.

The Special Representative of United Nations Secretary-General and Chief Executive Officer, Dr Kandeh K. Yumkella as well as the Director General of IRENA, Adnan Amin, endorsed the initiative and viewed it as an important and innovative practical tool to achieving the SE4All energy access target. Moreover, both Mr Yumkella and Mr Amin praised the initiative for moving away from the ideology based on grants and a project-by-project approach to a more holistic pragmatic market-based approach that can attract the private sector. Mr Amin presented scaling-up, creating an investment friendly environment, unlocking entrepreneurship and making financing available for small-scale projects as the main challenges for ElectriFI.

To conclude the introduction session, the Director for Sustainable Growth and Development in the European Commission DG for Development and Cooperation, Mr Roberto Ridolfi, reiterated the need to scale up and create a sustainable environment, encouraging investments from the private sector before he closed the session by proclaiming the workshop as an excellent opportunity to interchange ideas and recommendations with the main objective of improving ElectriFI.

Rural Electrification Experiences – Setting the Scene

In '**Setting the Scene**', private and public actors shared their experiences in rural electrification businesses and addressed the particular importance of rural electrification within the broader development scope.

Presentations were made by:

Caroline Nijland (FRES/ARE), Susanne Nies (Eurelectric), Kenis Lieven (Siemens), Prof Bernard Wagemann (University of Neu-Ulm), Molly Ward (US State Department), Christian de Gromard (AFD), Jens Drillisch (KFW).

The Q&A session treated several important topics. Providing electricity to rural, off-grid areas of developing countries is a major challenge. In order to electrify remote rural areas, the construction of **mini-grids** is essential. Discussions revolved around how to make mini-grids a viable long-term solution and if such strategy could meet a rapidly growing demand and how mini-grids could be constructed in a way that they later can be upgraded, inter-connected and eventually integrated to the main grid.

There are several **barriers for investment** that need to be removed, such as lack of capacity and training, lack of legal frameworks, lack of transparency as well as financing and payment risks. These problems must be addressed through efforts from the public sector to improve the legal framework for investments and for the private sector to develop sustainable business strategies together with policy-makers. Furthermore, the high level of poverty and small density of customers implies social tariffs and low demands. This makes some form of **smart subsidies** essential in order to make investments financially viable.

Providing local rural communities with **capacity-building** in the form of technology training and support is essential. It is also indispensable to provide electricity for **productive use** through support programmes in order to catalyse sustainable economic and social development. Moreover, it is crucial to ensure **support** to rural electrification businesses from national governments, local authorities, and community leaders. In addition, there is a need for greater **transparency** of national policies.

The representative of the US State Department, Molly Ward, presented the **IDCOL model**, which shares certain elements with ElectriFI. The model is a government-owned, independently operated, nonbank financial institution that funds infrastructure projects and off-grid renewable energy. The main objective is to create a market for renewable energy in off-grid areas. The structure of IDCOL is based on companies with finance and renewable energy expertise qualifying as Partner Organisations. A Technical Standards Committee sets standards for renewable energy technologies and components. IDCOL enforces quality control and monitors PO's financial performance and helps building their operational capacities. Moreover, policy support is provided by the government.

Eurelectric strongly supported ElectriFI and recommended EuropeAid to elaborate a **roadmap** for reaching the target to achieve energy access for all by 2030. This roadmap should be based on the EU-Africa energy partnership, and include steps, instruments, and roles for each stakeholder, as well as priority actions.

Reactions to ElectriFI

Marc Buiting opened the session by presenting ElectriFI. The initiative is elaborated by the private sector and EDFIs aiming at accelerating access to rural energy in developing countries by boosting the private sector to yield business opportunities. The discussion was positive and very fruitful. In general, ElectriFI was welcomed and viewed as a prospective initiative and a step in the right direction from a grant-based strategy to a market-based method facilitating viable rural electrification projects. The lively discussions demonstrated a strong support for the initiative with several worthwhile recommendations.

Topics being raised in the workshop concerned complementarity, capacity building, risky mini-grid investments, civil society involvement, productive energy use, added value, and gender equality. ElectriFI should ensure **complementarity**, address **capacity building** and provide technical assistance and training to entrepreneurs in the field. Also, it must ensure that local entrepreneurs benefit from facilities on the ground. Regarding **mini-grids**, it deserves to be reiterated that reduced tariffs for poor consumers implies low revenues, which in turn leads to a dependency of subsidies in order to make investments financially viable. A bottom-up approach with **civil society involvement** should be adopted. Civil society has a crucial role as an **entry point** to local communities and authorities. It can communicate the needs of the people in local communities and provide understanding of local situations. The civil society also has an important role in demand creation and boosting income-generating activities. In order to ensure that the initiative takes into account the economic development perspective, it is essential to ensure that electricity is provided for **productive use**, benefitting the economy as a whole. It is also important that ElectriFI brings **added value**. It is essential to avoid a 'project-by-project' approach and instead ensure a coherent strategy leading to an outcome where the whole becomes greater than the sum of its parts. The initiative should integrate the **gender perspective**, ensuring the inclusion of women and their involvement in decision-making processes. Access to modern, sustainable energy services is of particular importance for women in rural areas, as it can reduce women's time and labour burdens, improve their health and provide them with opportunities for enterprise and capacity building. This increases the time available for engaging in income-generating activities for women, who often face substantial constraints due to domestic work obligations. The other part of the gender aspect is to ensure the inclusion of women in decision-making processes. Moreover, legal and regulatory frameworks that prevent women from accessing credit and other financial services need to be addressed.

In addition to the mentioned reactions, a number of other important issues were raised. ElectriFI needs to take into account not only financial sustainability, but also **social sustainability**. A balance between profitability and social impact must be ensured. After all, ElectriFI should be an instrument for poverty eradication and thus make sure that poor people benefit from the initiative. The initiative also needs to take a **holistic regional approach** and partnerships with regional organisations and institutions should be established, particularly in the area of vocational training and

skills formation. In terms of evaluation, there is a need to clarify what are the **criteria** and who will establish them. It must be taken into account that if conditions are too restrictive, projects on the ground could suffer. A restrictive **evaluation procedure and bureaucracy** could slow down or hamper projects. Another point raised was the distinction between **generation and distribution**, as they have different financing and re-payment procedures. At last, the opportunity of ElectriFI to finance **national focal points** with private sector and civil society involvement was addressed.

Break-out Session 1 – Civil society role to guarantee socially viable rural electrification projects

This Breakout Session was co-chaired by Felice Zaccheo (Deputy Head of Unit for Water, Energy and Infrastructures in the DG for Development and Cooperation of the European Commission) and Giampaolo Silvestri (Secretary General of Fondazione AVSI).

ElectriFI is welcomed by civil society as an important tool to favour rural electrification. As its role is not defined in the document, this break-out session served as an excellent opportunity to design it. The main recommendations of the session were the following:

- Recognise the civil society role in building trust for the private sector
- Recognise the civil society role in promoting and advocating legal frameworks that take into account social, environmental and gender-equality aspects. The civil society also has an important role in communicating the needs of the local communities.
- Introduce a role for local social businesses as well as social entrepreneurship in the document.
- Recognise the civil society role in setting the framework for rural electrification initiatives in:
 - a. Last mile community engagement
 - b. Identification of needs
 - c. Capacity building and training
- Recognise the particular importance of energy access for women, leading to reduced burdens, improved health and more time available for income-generating activities.

Break-out Session 2 – Rural Electrification as Emerging Business

This breakout session was co-chaired by Ernesto Macias (Secretary General of the Alliance for Rural Electrification - ARE) and Georgios Pantoulis (Head of Sector for Energy Policy Implementation in the DG for Development and Cooperation of the European Commission).

ElectriFI was perceived as a very prospective initiative to catalyse rural electrification business. The main recommendations from the break-out session were the following:

- To ensure a long-term sustainable solution for rural electrification by close cooperation between private sector, governments, civil society and donors.
- Projects must be flexible, both in technical and financial terms. Flexibility ensures cooperation and partnership with the private sector, thus enhancing sustainability and growth.
- ElectriFI should ensure that electricity is provided for productive use, enhancing economic development.
- It is necessary to create trust and awareness through involvement and commitment of the local population.
- Every project should be of such quality that it can be scaled up, imitated and replicated.

Break-out Session 3 – Modalities of the Proposed Financial Initiative ElectriFI

This breakout session was co-chaired by Jan Rixen (General Secretary, European Development Finance Institutions - EDFIs) and Torsten Ewerbeck (Head of Sector for Financial Tools in the DG for Development and Cooperation of the European Commission).

The main recommendations were the following:

- There is a need for capacity building and technical assistance for local applicants in order to formulate successful projects.
- The objective is to electrify and simplify, thus the financial design should be simple, consistent and based on a minimum level of standardisation.
- Regarding the lack of funding for smaller-scale projects, two main recommendations were raised:
 1. Carbon credits could be used to improve financial viability of projects
 2. Senior debt should be present in all cases in order to ensure a complete financing package. Having convertible grants and subordinated debt in place as an instrument that can be made available will attract senior debt
- It is essential to create a consistent financing package and to investigate how project developers could put this together.
- Smaller projects should allow for bundling in order to minimise management costs and maximise impacts. It is crucial to examine how program developers can bring projects together.
- Regarding grant and senior debt letter of intent approval, the sequence of actions needs to be clarified towards a simple, fair and effective system that avoids being the sole obligation of the applicant.

Break-out Session 4 – Conducive regulatory framework to secure a sound implementation of the business model

This session was co-chaired by Jean-Pierre Kedi (General Manager of the Electricity Sector Regulatory Agency, ARSEL in Cameroon), Guilherme Collares (Director of Social Responsibility EDP Foundation) and Lennart Deridder (Head of Sector for Energy Policy in the DG for Development and Cooperation of the European Commission).

The main recommendations were the following:

- Political support should be implemented through master plans, through strategy of rural electrification and through coordination of various actors and stakeholders. The European Commission contribution in means of technical assistance and capacity building can be the right driver for forging the strategy of rural electrification and for ensuring the political support to this end. Technical assistance is also needed in terms of shaping the regulatory framework to comply with different technologies, allow for standards, offer incentives accompanied by reliable audits and controls to be carried out by regulatory authorities, while fostering networking of regulatory bodies.
- There is a need for effective regulation in order to ensure viability of rural electrification. Such effective regulation should promote transparency in tariff processes, economic fairness, as well as intermediation and arbitration.
- Technical assistance is a key for progress. Specific regulation should comply with the various levels of technology, suitable standards, convenient incentives in connection with reliable audits and control carried out by regulators and networking of regulatory bodies.
- It is essential to establish a platform for coordination of all stakeholders and to prepare local communities for projects.

Closing Remarks

The Deputy Director General of Policy and Thematic Coordination in the European Commission, DG for Development and Cooperation, Mr Klaus Rudischhauser, presented the concluding remarks of the workshop by reiterating the initial main objectives of the workshop:

- To bring stakeholders together to draw up on collective experience, input and recommendation; and
- To investigate the needs in terms of business models.

He also repeated the crucial need for **massive energy investments** estimated at 48 billion dollars a year are needed in order to meet the SE4All goal of universal access to sustainable energy by 2030. The only way of unlocking such amount of financing is by creating **new tools** that allow the private

sector to step in. The Commission stands ready to make ElectriFI a success by working together with EDFIs for establishing the required platform and allocating significant resources. Cooperation in energy should be also viewed as a **game-changer** in reaching the existing global climate change objectives.

There are nevertheless many existing challenges. Mr Rudischhauser proclaimed that we are more successful on the side of the offer than on the side of the demand. Instruments are established, the private sector is keen to offer solutions, but the bottom up demand structure and the way of how to translate the demand into projects is not yet present. To cope with barriers preventing financing of small-scale projects, there is a need for diverse and innovative approaches. Here, civil society has a vital role that cannot be replaced by anyone else. Therefore, one of the main challenges of ElectriFI is to **ensure active involvement of the civil society** in rural electrification projects.

Mr Rudischhauser concluded the workshop by thanking all the participants for their active participation, for their strong support for ElectriFI and for contributing to fruitful discussions as well as providing crucial recommendations. With these recommendations the Commission will further consult Member States on how to implement this initiative.

Summary of main outcomes of the workshop

- ElectriFI was viewed as a very welcomed initiative and was met with an overwhelming support.
- The initiative is the missing link of all other initiatives implemented by the European Commission and Member States.
- The crucial role of civil society as an entry point and trust-builder for the private sector as well as advocator of social, environmental and gender aspects should be ensured. Moreover, the role of civil society in capacity building, last mile community engagements and identification of needs should be recognised.
- There is a need for moving away from a 'project-by-project' approach to a strategy where each project is part of a more comprehensive framework with a common objective – to increase the access to sustainable energy.
- It is essential that electricity is provided for productive use, leading to further economic development.
- The issue of the lack of funding available for small-scale projects must be addressed. The use of carbon credits and the presence of senior debt could be two feasible solutions.
- A conducive regulatory framework should comprise: political support implementation through master plans; effective regulation promoting transparency and economic fairness; technical assistance; and a platform for coordination of all stakeholders and to prepare local communities for projects.