Main findings and wrap-up

28 March 2017
African Development Bank
Session 1 – Enabling environment

• Government to ensure consistency in policies and regulations
• AfDB to support long-term integrated planning of off-grid and on-grid
• Tariff consistency between off-grid solar home system, mini-grid, and utility
• Strengthen quality control, consumer protection, and capacity building
• Develop the local ecosystem including manufacturing
• Independent authority to support multi-stakeholder dialogue
Session 2 - Financing

**EQUITY**

- Patient capital with reasonable expected returns
- Use complex structures (e.g. mezz, convertibles)
- Build local project developers
- DFIs to seed local equity funds

**DEBT**

- Local banks need volume and capacity building (technical assistance)
- Teach local lenders the use of mobile credit scoring methods from providers assisted by DFI loan guarantees in the beginning
- No magic bullet to cover FX risk – build local manufacturing
Session 2 - Financing

INSTITUTIONAL INVESTORS

• Deepen local financial markets, slice risk to investors’ needs
• Develop local equity fund managers
• Improve policy and regulatory framework to facilitate investment

SECURITIZATION

• Creation of an African asset company to bundle receivables and sell to investors
• Possibly grow into a clearing platform for secondary trading
Session 2 - Financing

OTHERS

• Third party verification of company level access data

• Develop integrated and country-led Public Private Partnership approach (including blended finance mechanisms, working with local structures)

• Provide complete finance packages for entire value chain

• Leverage Green Climate Fund et al.
Session 3 – Risk mitigation

• A huge gap between perceived risk and real risk: the answer lies in data gathered by Distributed Energy Service Companies over the last five years, which will enable financial institutions to properly assess consumer risks;

• Local banks are the natural hedging for FX risks but do not necessarily offer the maturity expected; and local financing institutions are not used to receivable collateralization and mobile money;

• The supply of hedging tools for FX risks is available, but entrepreneurs often choose to carry foreign exchange risks;

• The central Bank can reduce the cost of hedging significantly through predictable policy actions;

• Subordinated, first loss, guarantee instruments, capacity building to credit risk officers and senior management are key to incentivizing local finance institutions to invest and gain capacity in assessing risk, but local supply of finance may become insufficient;

• Blended finance and first loss layers have shown to be key to reduce the cost of local capital
Session 3 – Risk mitigation

• **Technology and operational risks** are usually well managed by PAYG companies;

• Governments and MDB have to work together to mitigate policy and regulatory risks: *need to open up markets for off-grid entrepreneurs to grow*. Some disasters risks over the long term could also be absorbed;

• Having a national strategy to decide about an efficient distribution mix of grid expansion, mini grids and off-grid solutions;

• Need to work with governments to set up guidelines Customer protection;

• **Accreditation of providers upfront from AfDB** according to credit, governance criteria could speed up access to finance to better serve the needs of off-grid entrepreneurs;

• City Challenge: Big pilots where we blend the funding available and where companies bid for expansion in certain geographical areas;
Session 4 – Business models

• Industry self-regulation: to assure high-quality products / customer services for attraction and retention of customers
• Cross-sector partnership: TELCOs help entering new markets and solve distribution problems
• Data on credit scoring needs to be transparent and visible
• Platform approach: aggregation across companies and sectors
• Consumer campaign, awareness and training
• Access to local human resources