

DISTRIBUTED FUNDS FOR DISTRIBUTED RENEWABLE ENERGY: ENSURING AFRICAN ENERGY ACCESS FINANCE REACHES LOCAL ACTORS

SUMMARY

Renewable energy produced through off-grid and mini-grid wind and solar installations – called ‘distributed renewable energy’ – has consistently been identified as the most effective, affordable, and resilient way to deliver electricity services to rural areas without access. However only about 1-2% of finance for electricity in Africa is currently flowing to distributed renewable energy.¹ Of this, the vast majority has been for multinational companies that are based in Europe or North America or led by entrepreneurs from these regions, meaning profits are largely not remaining in Africa.²

Communities in Africa have overall contributed the least to climate change and been undermined the most by international trade and finance policies and have a right to better international support for distributed renewable energy.

In order to reach universal energy access before the 2030 target set by the UN Sustainable Development Goals, international public finance institutions have an urgent responsibility to provide **more funding** and **better financial transparency and tracking** for distributed renewable energy. But they also have a responsibility to **foster local participation in and ownership of distributed renewable energy initiatives. This briefing provides recommendations for how international public finance institutions can fulfill this responsibility.**

As governments and public finance institutions around the world prepare historic stimulus packages in response to COVID-19,

support for distributed renewable energy for those lacking access to electricity is critical for improving health outcomes during the pandemic as well as building a just recovery with a more equitable and sustainable economy.³ Distributed renewable energy has important cost and resilience advantages over both grid-based renewable energy and off-grid fossil fuels.⁴ This is all the more important as the pandemic has laid bare the need to build energy systems that are resilient to future crises, including the global market shocks and natural disasters we can expect to see intensify as climate impacts escalate.

To support local participation in and ownership of distributed renewable energy entities throughout Africa, international public finance institutions should:

Support the entry of local finance institutions into the distributed renewable energy sector

1. Design early-stage finance for locally owned distributed renewable energy companies to include grant-to-debt sequencing and reporting requirements aimed at strengthening internal processes.
2. Support capacity-building for distributed renewable energy lending in local financial institutions. Specifically, enable programs that pair experts with local financial institutions for six months or more to set up systems and training for assessing risk and opportunities in this sector.
3. De-risk early distributed renewable energy investments for local financial institutions by enabling the establishment of catalytic first-loss capital, including first-loss guarantees.

1 Allison Lee, *Shortchanging Energy Access: A Progress Report on Multilateral Development Bank Finance*, Oil Change International, October 2018, <http://priceofoil.org/2018/10/10/shortchanging-energy-access-report-mdb-finance/>; Federico Mazza et al., *Energizing Finance: Understanding the Landscape 2019*, Sustainable Energy for All in partnership with Climate Policy Initiative, October 2019, p. 12, <https://climatepolicyinitiative.org/publication/energizing-finance-understanding-the-landscape-2019/>.

2 Benjamin Attia and Isaac Maze-Rothstein, *Strategic investments in off-grid energy access: Scaling the utility of the future for the last mile*, Wood Mackenzie Power & Renewables in partnership with Energy 4 Impact, 28 February 2019, p. 19, <https://www.energy4impact.org/file/2086/download?token=9-hw5RF1>; Sanjoy Sanyal, Chen Chen, and Molly Caldwell, “The Impact Investors’ Blind Spot: Local Clean Energy Entrepreneurs in Kenya,” Working Paper, Washington, DC: World Resources Institute, June 2020, www.wri.org/publication/impact-investors-blind-spot.

3 Vanesa Castán Broto and Joshua Kirshner, “Energy access is needed to maintain health during pandemics.” *Nature Energy*, 2020, <https://www.nature.com/articles/s41560-020-0625-6>.

4 Alstone, P., Gershenson, D., Kammen, D.M., “Decentralized energy systems for clean electricity access,” 2015 Nat. Clim. Chang. 5, p. 305–314, <https://doi.org/10.1038/nclimate2512>; Divyam Nagpal and Bishal Parajuli, “Off-grid renewable energy solutions to expand electricity access: An opportunity not to be missed,” International Renewable Energy Agency, Abu Dhabi, 2019, https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2019/Jan/IRENA_Off-grid_RE_Access_2019.pdf.