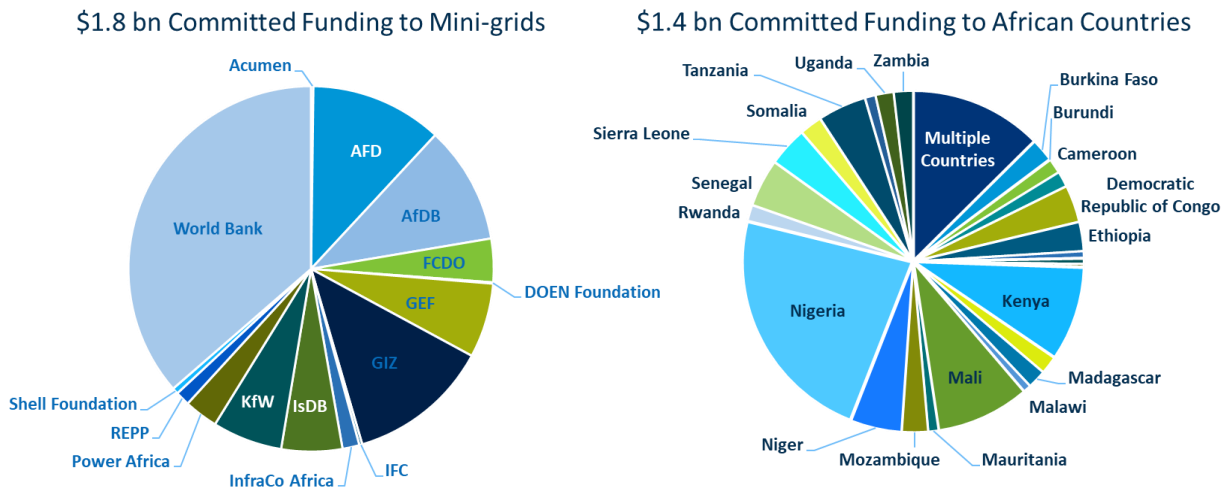


# Accelerating Mini-Grid Disbursements and Delivery

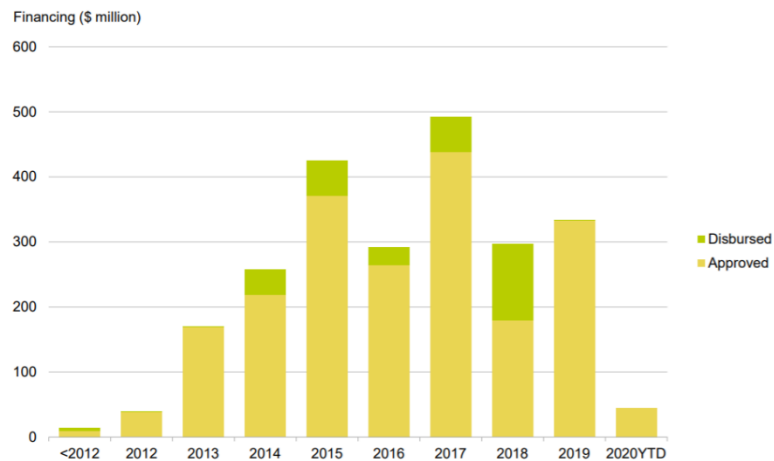
*By Mini-Grid Funders Group Co-Chairs*

The Mini-Grid Funders Group (MGF) was first established in 2017 and now consists of 30 sector funders and financiers co-ordinating efforts and sharing lessons. These funders represent a total committed investment of around USD 1.8 billion into mini-grids globally, of which USD 1.4 billion is in Africa, as shown below.



The Funders Group is chaired by the World Bank, the African Development Bank (AfDB), and the UK’s Foreign, Commonwealth and Development Office (FCDO), with the Carbon Trust acting as the Secretariat. At the launch of the [State of the Global Mini-Grids Market Report](#) in July 2020, one of the

Approved and disbursed financing in the mini-grid sector



notable statistics presented was the disbursement rate to date of 13 percent of the USD 1.8 billion recorded as committed by the MGF members.

The Mini-Grid Funders Group's objective is to deploy committed funding quickly and effectively to deliver clean energy access for as many unserved communities as possible. This blog is an attempt to unpack the disbursement rate issue, building on discussions in the group and further analysis by the secretariat on the figures. It also suggests some actions – both by funders and non-funders – to accelerate disbursements and delivery.

## Is a 13 percent disbursement rate bad?

We would all like to see faster delivery on the ground, faster disbursement rates and even greater levels of private investment. Indeed, even since the publication of the [State of the Global Mini-Grids Market](#) report in July, programme updates have taken the disbursement rate up to 14 percent, despite COVID-19. However, it is not actually clear what disbursement rate number we should expect or aspire to at any one time. Several positive things can lead to low disbursement rates:

- The mini-grids sector is seeing rapid growth in interest and investment. 2019 was a significant year for commitments in which we saw the World Bank and AfDB commit USD 240 million in Nigeria alone, which are only just starting to disburse. Further announcements of additional funding are expected in the next 12 months, which could actually reduce the disbursement rate in the short term.
- The disbursement rate of a financing window is strongly influenced by market readiness, and funders have been supporting this readiness by working with partner governments, which takes time, especially in countries where markets are in early stages.
- Much of the non-policy or technical assistance support to the mini-grids sector is in the form of results-based financing (RBF). This is a mechanism with strong support from industry, but that doesn't pay out until after delivery, and so disbursement will not be reported until later in the finance window.

As more programmes come fully online, and RBF is claimed as connections are made, we expect the disbursement rate to improve over time. However, we also expect and encourage further commitments from funders, financiers and governments, which may in the short term even lower the disbursement rate.

## Factors within the funders influence

There are always areas where funders can improve their processes or procedures, and members of the Funders Group take seriously their responsibility to be as efficient as possible, while fully carrying out their duties for robust management of funds entrusted to them. Some of the areas where improvements are needed, and happening, are as follows:

- Many mini-grid programmes funded by MGF members to date have been the first of their kind – for the funders themselves, as well as partner governments, regulators, etc. This has often made facility set up times longer than expected or desired. Increased exchange of lessons, templates, tools, approaches, experiences, etc. between programmes and between funders and governments – as facilitated by the MGF and organisations like the [Club-ER of Rural Electrification Agencies](#) – seek to make programme start-ups smoother as they are repeated.
- Funders and financiers have often struggled with understanding and responding appropriately to the risk profile of the sector. In many cases what is needed is infrastructure finance, but the typical risk expectations of traditional infrastructure investors are not immediately aligned with the actual risks of the nascent and decentralized mini-grids market. Indeed, investment committees often view mini-grid developers more like tech start-ups than utilities. As each funder gains more experience and familiarity with the sector, for example, in ESG departments or investment committees, we can also expect processes to speed up.

Overall, different funders have been building up their experience, capabilities and portfolios on mini-grids and updating their risk tolerance as they go. As knowledge, experience and replicable funding models develop across the sector, it will become easier to mitigate risk and disburse funding. But action from funders alone can only go so far, and for the whole sector to work – that is, for the funding to really flow – the roles of partner governments and developers are also key.

## Factors influenced by the wider sector

Some of the factors in the control of other key stakeholders, which also have an impact on the disbursement rate of mini-grids funding, include:

- Partner governments have a central role in setting the policy and regulatory conditions for the mini-grids sector. While funders can support this process, such as via the [Green Mini-Grid helpdesk](#), [Get.Invest](#), and [ESMAP](#), in the end it is only governments that can put in place these conditions, which have a critical bearing on the investment appeal and fundability of projects in respective countries. Again, funders can help with things like supporting capacity and better data on which to base decisions, etc., but a basic alignment of intent and perspective on the future market is key, and indeed growing in many countries.
- Tariffs are always a key issue, with a range of perspectives still existing within and between stakeholder groups around the best, fairest and most realistic approach. Funders are always looking for the most efficient and catalytic use of their capital, but don't generally have a dogmatic view on the best approach on tariff – as long as it is affordable and sustainable. However, a clear public-private settlement on the tariff approach, whatever it is, is needed for funds to flow in earnest, as without effective tariffs and clarity on the role of any incentives or subsidies, projects cannot reach financial close, and funds cannot be disbursed.
- Intermediaries, associations and fora can play an important role in bringing together stakeholders and finding solutions – for example organizations like the [African Forum for Utility Regulators](#) (AFUR) are working with the Funders Group's support to create a platform for dialogue between the public and private sectors on cost-effective tariff design.

Experience has shown that stakeholder alignment is fundamental for the sector to grow, and funds to flow – and this will only be achieved through the establishment of genuine public-private settlements.

## Summary and outlook

Overall, having high and growing levels of commitment and increasing interest from governments and major funders in the mini-grids sector is a positive thing, including in challenging markets with high development benefits to electrification. The role of results-based financing is widely accepted across the sector, and competition and allocation tools are becoming increasingly standardized, as we are seeing, for example, in the piloting of the [Universal Energy Facility](#) (UEF) by SEforAll in Sierra Leone and Madagascar.

The Mini-Grids Partnership plays an important role in convening industry, governments and funders to work towards the settlements needed for sector expansion. The publication of the State of the Global Mini-Grids Market report earlier this year is an important milestone providing data and insights to help the sector deliver on its potential. The Mini-Grids Funders Group is committed to continuing to play its role in supporting the sector to accelerate delivery and accelerate the flow of funds.