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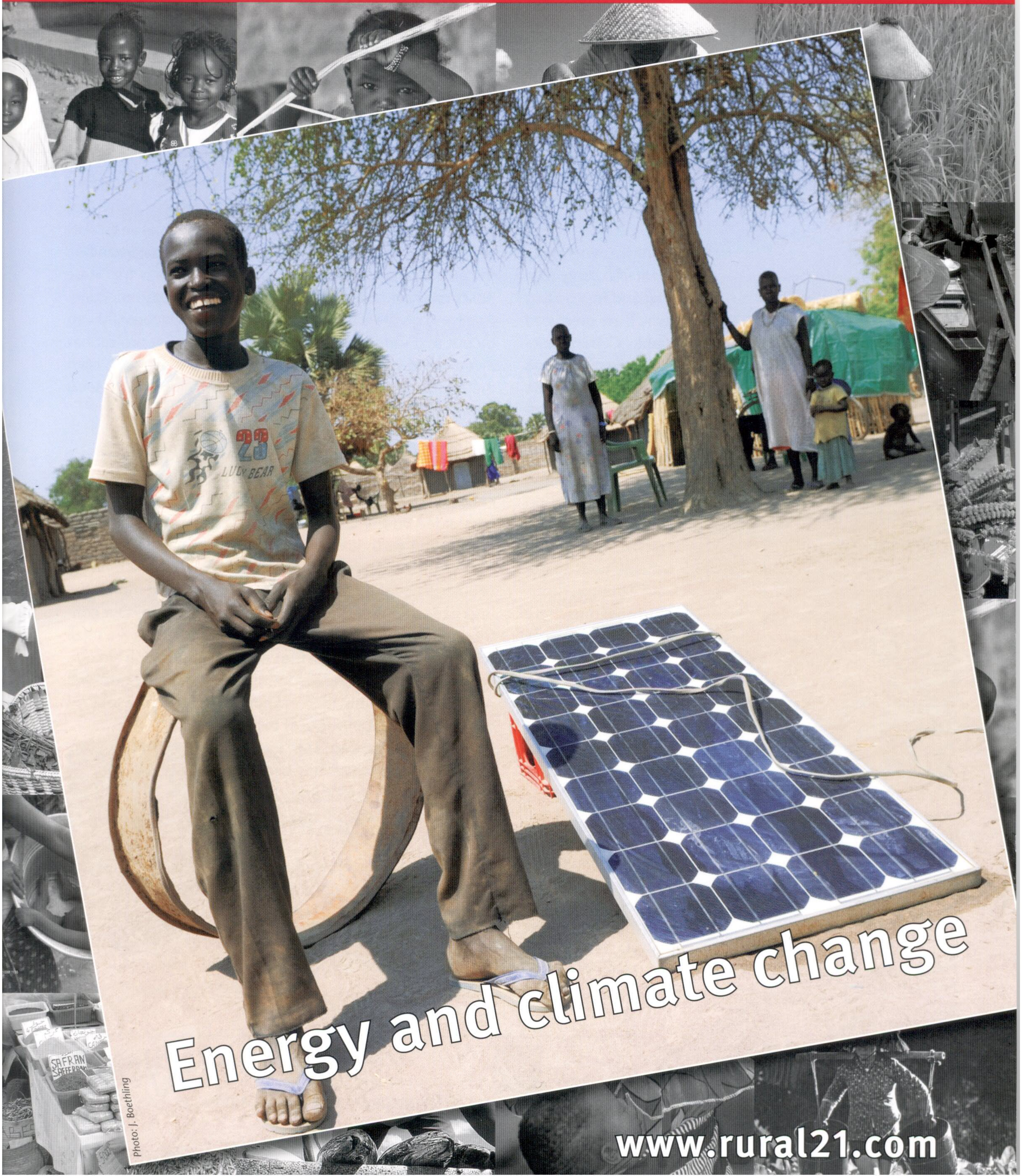

# The time is ripe for modern electricity supply

Electricity is a basic need, and a prerequisite for development. There is no longer any shortage of technical solutions, and sufficient money is available. Why, then, are 1.6 billion people still living without electricity? We present five hypotheses and propose three solutions.

**The first hurdle: The people who develop energy strategies do not implement them.** Energy strategies are usually drawn up by state development cooperation bodies and financed by the World Bank. Yet these plans need to be implemented by energy companies. Thus such companies would be obliged to operate a solution they had not developed. This is neither a desirable nor an acceptable responsibility for any company to assume.

**The second hurdle: The people who supply the components do not operate them.** Business in the off-grid sector is dominated by calls for tenders to supply technical components. These calls are made by the bodies drafting energy strategies, and their decisions are made on price grounds. It is not the component supplier who is responsible for running the generation plant, but the operator, who has had no say in the choice of technology. An excessive risk for an operator to take, from both a technical and financial perspective!

**The third hurdle: Distortion of competition.** Private investors face three main types of competitor:

1. NGOs, who donate private funds without demanding any significant quid pro quo,
2. Development assistance organisations, which buy the goodwill of elites in the host country using large sums of money from donor countries' budgets, and
3. Local politicians, who waste their citizens' money on showcase projects (not only) during election campaigns.

Thus countless one-off solutions are born, free of all strategic cohesion. And the market is *kaput*: who would pay an investor's electricity price when they could get it for free?

**The fourth hurdle: To take the initiative, you take a risk.** Any party taking energy supply into their own hands, and thus straying from the predetermined path, also adopts all the costs and risks. Costs include import duties and the cost of training technical and sales staff; risks include a lack of legal certainty, the potential customers' insecure income levels, real or anticipated political instability and more or less severe corruption. Any company facing down these factors needs an iron will!

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**The fifth hurdle: Stable financing only found among far-sighted investors.** And then there's financing. The traditional model is almost impossible – the business model is too risky, the credit risk too great, the volume too small. The only viable source of financing lies in far-sighted investors, who allocate more importance to the strategy than to the basic figures, although the figures must also fit. What a balancing act!

## Proposals for fair competition and sustainable commitment

- **Consider the full lifetime costs.** Electricity supply is a long-term business, in which initial investment is just one factor. For a fair decision – even and especially in the case of tender processes – we need to calculate all the costs over the project's lifetime. Only then will photovoltaic power win over a diesel generator, the quality product beat a cheap module and a professionally-run village power plant be preferred to a solar home system.
- **Subsidise tariffs not investments.** All investment subsidies will necessarily inflate the purchase price and therefore the cost of importing and processing goods. They are short-termist, selective and benefit above all the participants in one-off business deals. Tariff subsidies, on the other hand, encourage a long-term commitment of investors in developing countries. They keep the door permanently open to renewable energies as a form of electricity supply fit for the future of these economies.
- **Establish partnerships between foreign investors and organisations in the target country, using long-term business models:**
  1. Government development assistance from the investor's home country (in Germany KfW, GTZ, etc.) should agree with the host country a binding set of rules governing partnerships between foreign firms and public or private sector organisations in the host country.
  2. This set of rules should be binding on the host country's partner organisations; foreign organisations submitting to these rules should receive uniform, clearly defined benefits from the host country (in terms of customs duties, tax etc.), special conditions from local banks and if appropriate the allocation of public funds.
  3. Throughout the partnership, development assistance organisations should act as watchdog, overseeing both parties and applying suitable penalties where rules are infringed.