Energising Development

Key findings from EnDev's survey on implications of COVID-19 on energy access markets show the crisis of particularly local energy companies. Being left behind by most existing support instruments, EnDev proposes a comprehensive set of support interventions to address the needs along the value chain. Helping the actors on supply side to survive the crisis, will pave the way for green economic recovery in partner countries.

The COVID-19 pandemic and the strict measures to prevent the further spreading of the virus, significantly affect local energy companies in the decentralised energy sector of developing countries in Africa, South-East Asia and Latin America. Customers are no longer spending their money on solar PV systems, access to communities is restricted, supply chains are interrupted, staff numbers are cut, and investors are less inclined to become involved. More and more, energy entrepreneurs are facing financial distress, no matter the company size, the technology promoted, or the geographical focus.

With energy companies struggling for economic survival, there is a significant danger of eroding and undoing years of gains made towards SDG7 and setting countries back in their development tracks.

Over the last 15 years, EnDev has supported the development of rural energy markets and strengthening of private sector actors across the entrepreneurial spectrum in 25 countries for delivering energy services to households, social institutions and micro, small and medium-sized enterprises. To better understand how these often smaller local actors are affected by the crisis, EnDev launched a survey in April 2020 amongst its private sector partners in the 23 countries it currently works in. In total, the survey received 670 responses which makes it one of the most meaningful energy sector COVID-19 implications surveys to date. The companies surveyed encompass a variety of sub-sectors including improved and clean cooking, biogas, household solar PV and mini-grids with staffing of less than ten (about 50% of the respondents) up to more than a hundred. The survey also shows that companies are confronted with severe liquidity constraints, forcing them to scale down their operations, reduce salaries, lay-off staff, or seek for alternative businesses.

Harsh economic environment

About 75% of the companies/respondents indicate not to be able to cover for financial losses over a period beyond three to four months, if the lockdown continues. A staggering 29% have had to cease their operations already. The survey shows that smaller companies suffer as much from the crisis as larger ones, even if they are less dependent on external capital (in the case of ICS, biogas, cash-based solar). Mid-sized and larger companies in the PAYGO solar and mini-grid sectors express a severe financial vulnerability. Moreover, 50%

of companies expect a staff lay-off within three months, on average up to half of their original staff volumes. Roughly, this concerns over 4,000 jobs from the companies that participated in the survey.

Limited access to (grant) finance

The survey found 56% of the companies/respondents in need of financial relief, either through grants or bridging loans. The other respondents prioritised technical and operational support or industry coordination. Most companies indicated not to be able to access any relief funds. Additionally, the survey found the financial needs of these companies were, due to their nature and size, generally below EUR 50,000 with 50% of local ICS and 20% of solar companies even below EUR 5,000. Consequently, almost all existing COVID-19 relief funds in the energy access sector are far out of reach for smaller and medium-sized companies while also the concessionality of the funds plays a critical role.

Lack of governmental/public support

Support measures from national governments are minimal. 65% of the companies/respondents indicated no relief mechanisms in place (or able to make use of) at all. However, in 21% of cases tax reduction or deferrals are in place, 12% of respondents can make use of working in a declared essential sector.

Supporting the Green Economic Recovery

The survey shows that there is a significant risk that the capacity built by EnDev and partners over the years will remain severely decreased after the pandemic. The longer it takes, the more companies will cease operations and go into hibernation or face bankruptcy or shift their product and service portfolios, moving away from energy. Companies using more advanced consumer financing structures such as PAYGO may collapse. EnDev country projects are in the process of exploring how to reduce the impact within the – limited financial – means they have available. Some countries, like Mozambique, have been able to re-programme funding to support companies and their customers with RBF-based incentives. Additional funding at a global level would, however, be required to minimise the effects on EnDev's portfolio.

EnDev has developed and shared its ideas on market-based approaches for the protection and economic recovery of energy access markets affected by the COVID-19 pandemic.

To prevent energy access market deterioration and create conditions for an effective green recovery, EnDev has an extensive intervention menu consisting of technical and financial support instruments that sustain markets and enterprises during the crisis and support the resuming of activities and growth afterwards. With its market-based approach, EnDev can engage in the development of energy markets systematically and comprehensively through interventions at the supply and demand side, as well as the enabling environment and policy levels:

- Results-based bridging grants
- Leveraging bridge loans in combination with business coaching
- Smart subsidies for vulnerable communities
- Policy measures, social protection schemes, and public procurements