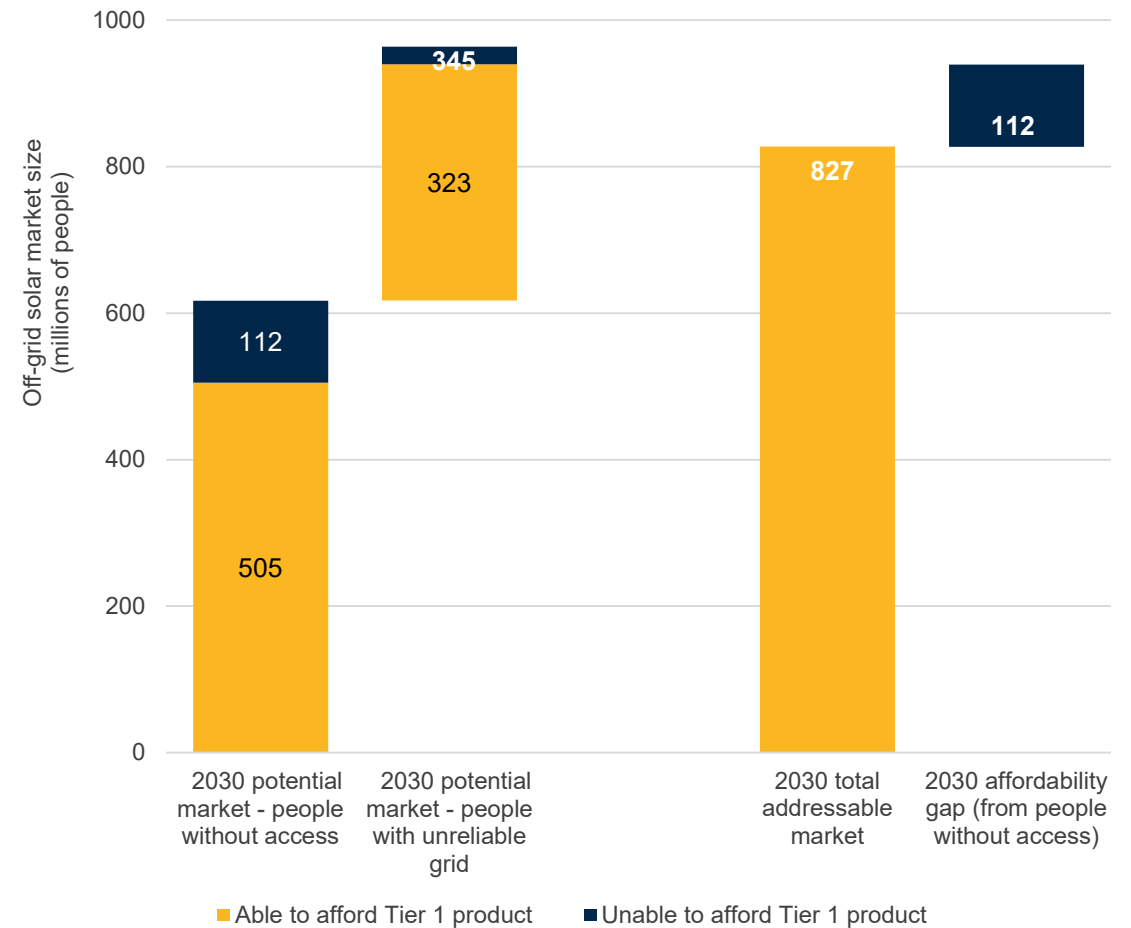


BRIDGING THE AFFORDABILITY GAP: HOW TO DESIGN PRO-POOR SUBSIDIES

Dana Rysankova
Global Lead for Energy Access
World Bank



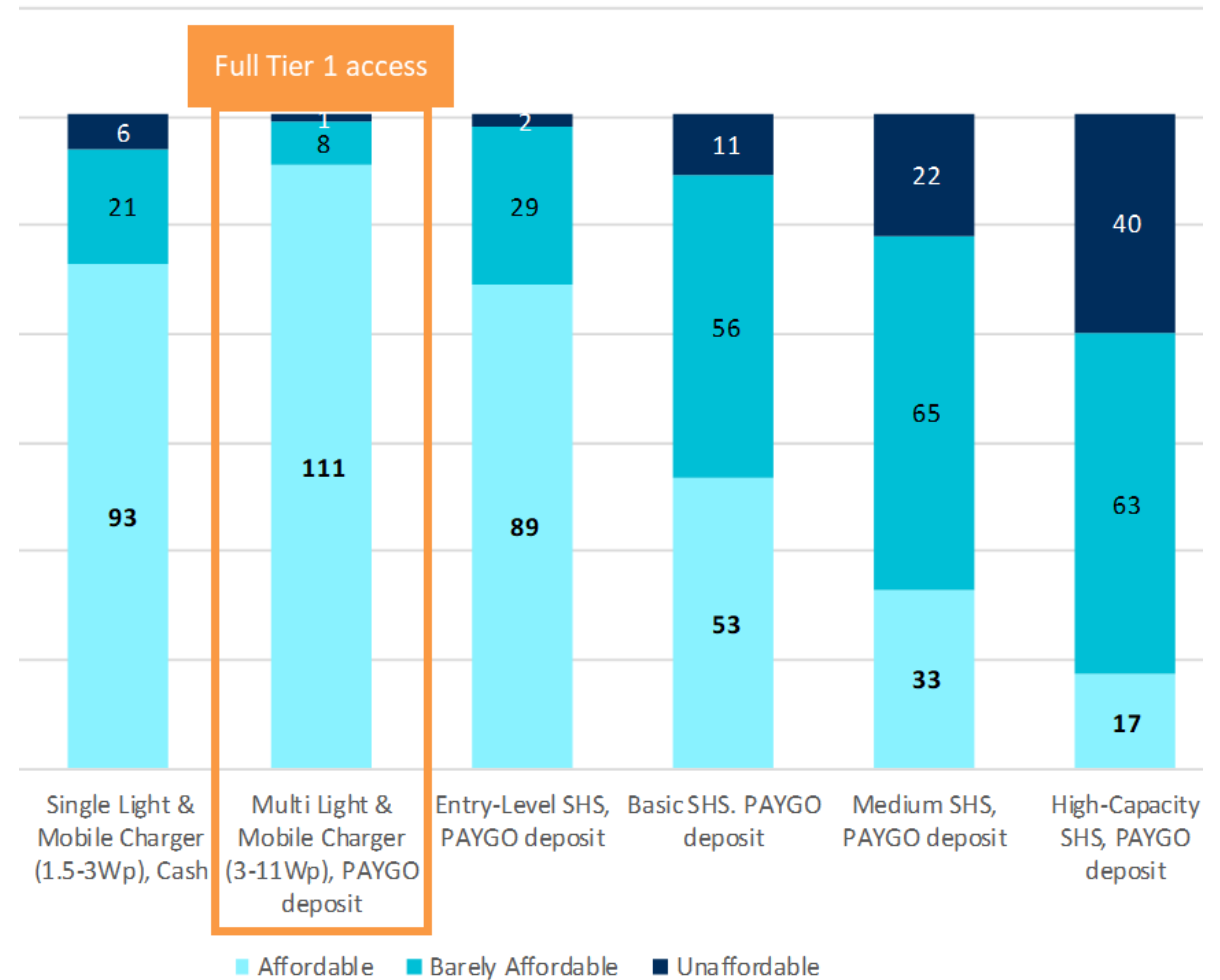
The market potential for Off-Grid Solar is impressive



PAYG continues to drive affordability

- Households that could not afford a single light & phone charger product upfront, can often afford a multi-light system if it comes with consumer financing
- Promoting PAYG means therefore to promote affordability for lower income households

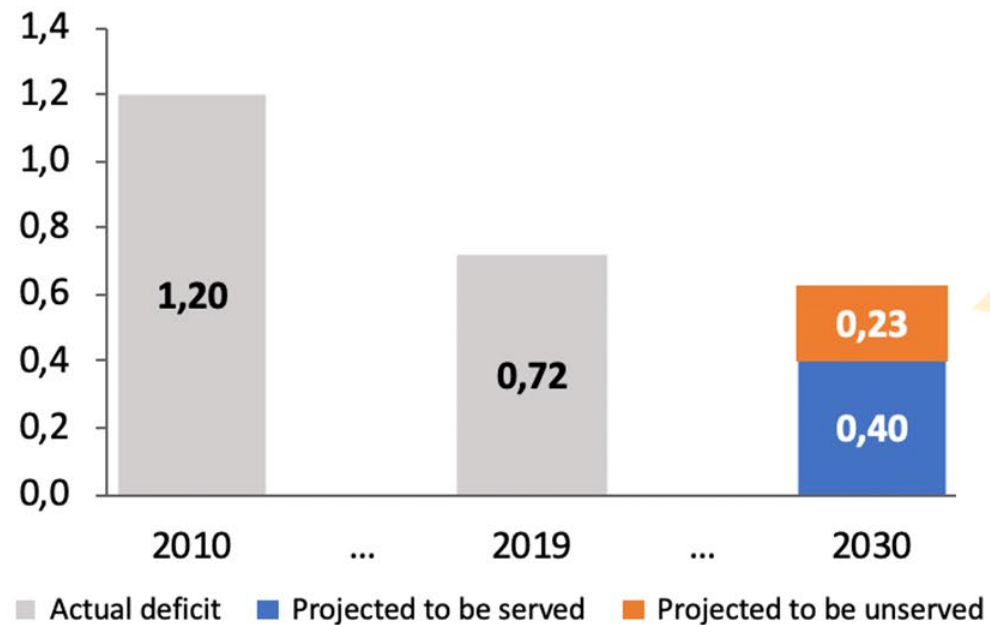
Sub-Saharan Africa - Practical Affordability



Yet, we risk leaving behind 230 Million people

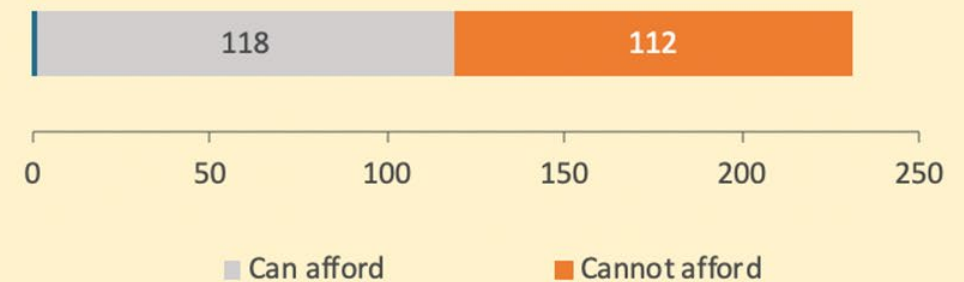
Global electricity access deficit¹

Population (billions)



2030 unserved population affordability breakdown

Population (Millions)

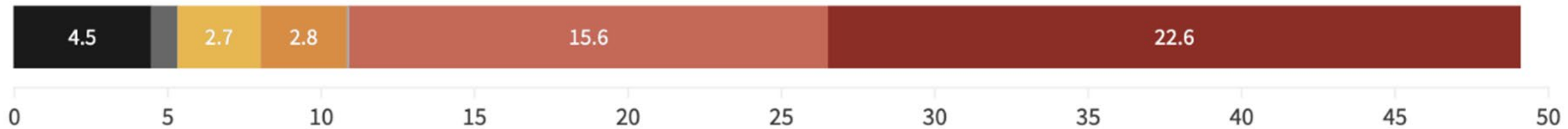


Accessibility and affordability will be two of the key challenges to overcome in order to achieve SDG7

The Covid19 Pandemic Compounds the Situation

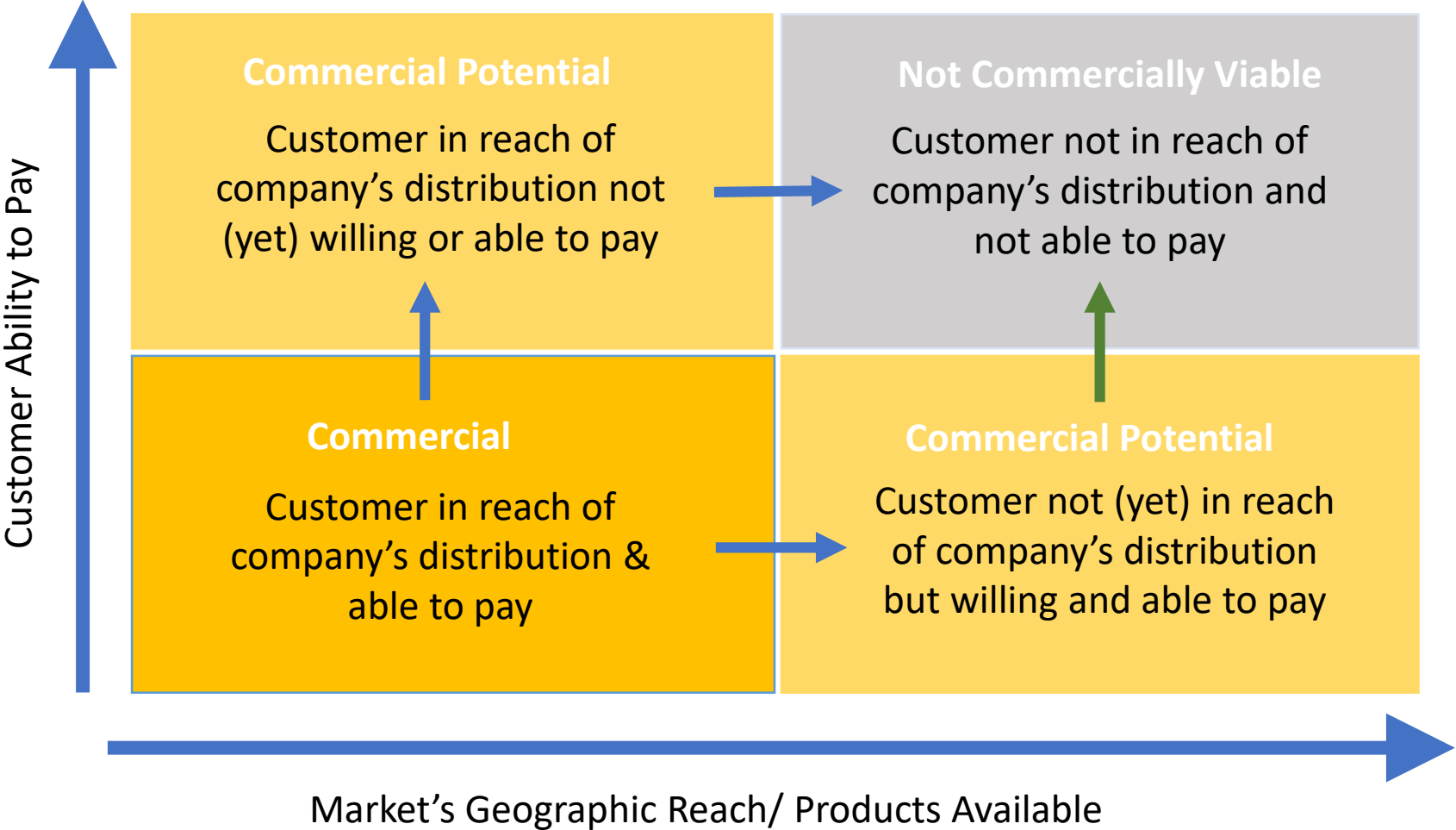
Millions pushed into extreme poverty due to COVID-19

Legend: East Asia & Pacific (Black), Europe & Central Asia (Dark Grey), Latin America & Caribbean (Yellow), Middle East & North Africa (Orange), North America (Light Grey), South Asia (Red), Sub-Saharan Africa (Dark Red)



Millions of people

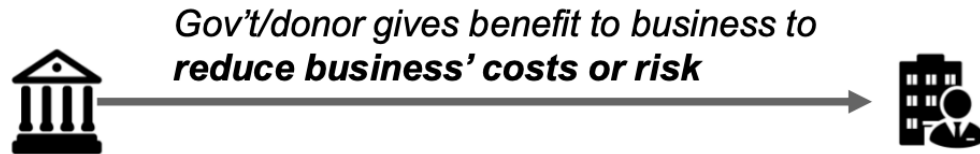
Bridging the Availability & Affordability Gap Requires Support on Demand and the Supply Side



To Date, Most Support has Focused on the Supply Side

Supply-side subsidies (SSS)

- **Purpose:** Reduces cost/risk for the company in order to increase access
- **Examples:** Tax exemptions, grants, concessional financing, results-based financing*

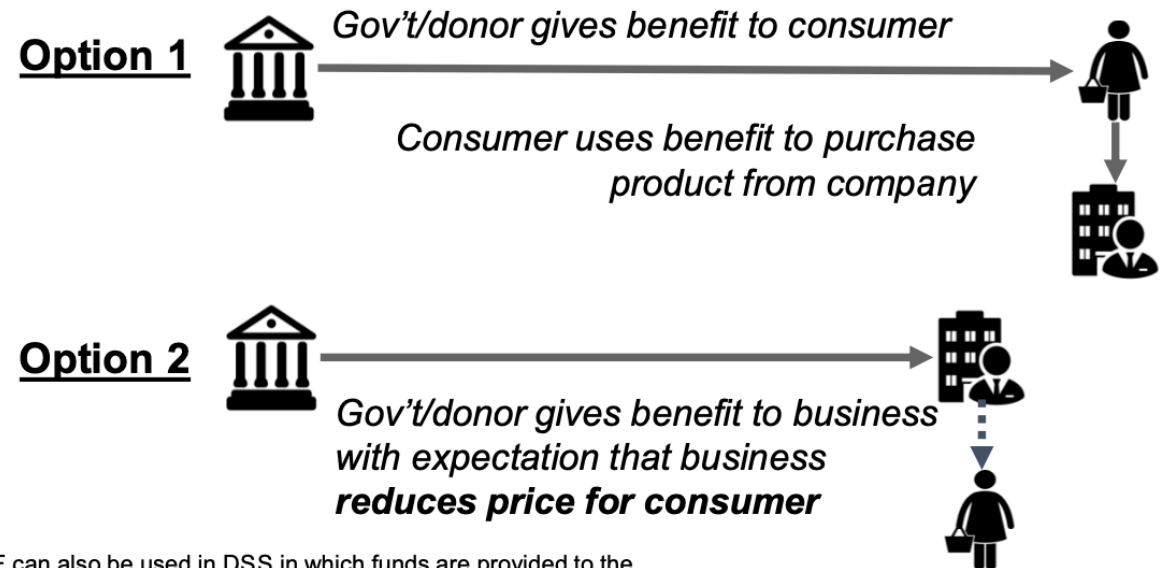


Indirect subsidies are a form of SSS and an important form of support to create an enabling environment (e.g. consumer awareness campaigns)



Demand-side subsidies (DSS)

- **Purpose:** Addresses affordability gap for end users
- **Examples:** Cash transfers, vouchers, free products, results-based financing**

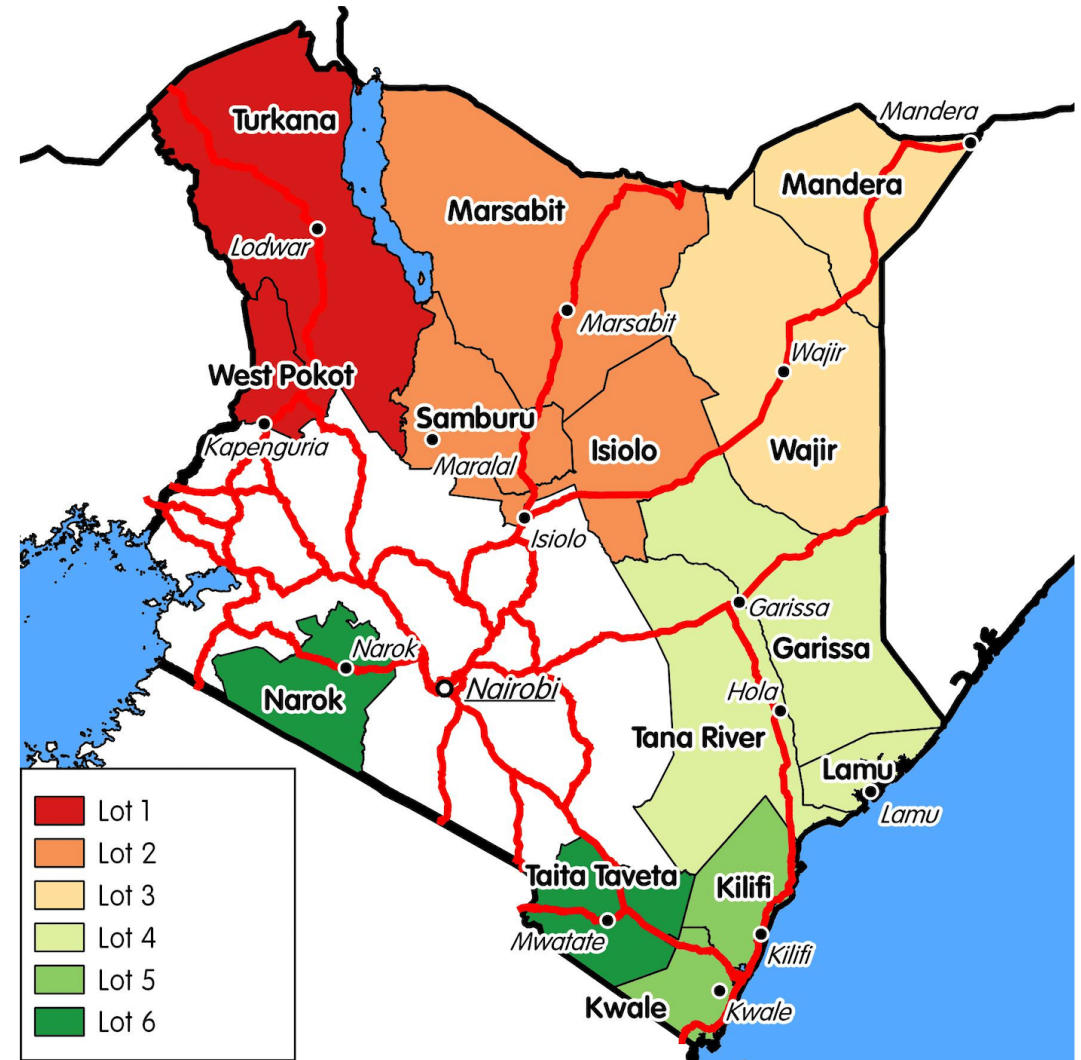


Note: *Result-based financing (RBF) can serve both to increase access and reduce costs for end consumers. RBF can also be used in DSS in which funds are provided to the business upon proof of a sale of a product to a customer at a reduced price. **Free products include public procurement programs that are based on willingness to pay of target customers

Supply Side RBF in Kenya - Incentivizing Markets to Go Into Less Attractive Geographies

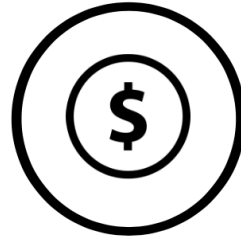
The Kenya Ministry of Energy is implementing an RBF program aimed at expanding off-grid markets into remote areas.

- Encourage uptake of OGS products in 14 of the most remote Kenyan counties that have the least-developed infrastructure and are relatively socio-economically underserved.
- RBF compensates OGS companies for initial, ongoing, and associated opportunity costs to expand their operations to customers they would not otherwise have served under their current business models.

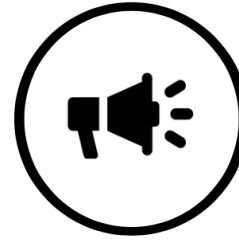




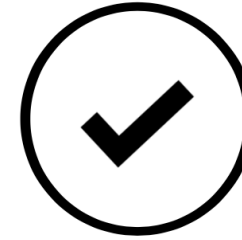
1. Well-targeted



2. Fill the affordability gap



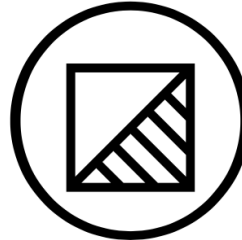
3. Consultation and communication



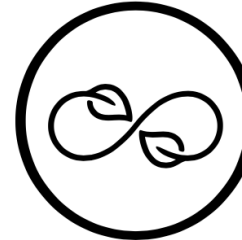
4. Verification and accountability



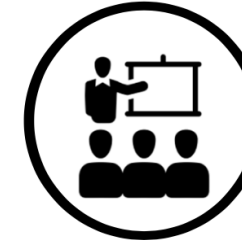
5. Efficient processes



6. Transparent processes



7. Market sustainability



8. Capacity building

Demand-side subsidies are more difficult to design

Pro-Poor RBF in Rwanda



Rwanda: Currently in its early stages, EnDev's ProPoor DSS pilot was launched in 2019 to address solar home system affordability

Overview

Key objective: SSS initially launched in 2014 to support market development and alleviate market barriers as part of Rwandan national electrification strategy. DSS pilot launched in 2019 to address affordability

Target customers: HHs in five southern districts (off-grid areas with low-income HHs without electricity)

Project status:

Completed: 2014 – 2018 (SSS RBF)

On-going: 2019 – present (DSS pilot)

Project details



Products: Solar home systems (SHS)



Subsidy level

- Subsidy coverage of total SHS cost: Ubudehe I – 90 Euros, Ubudehe II – 70 Euros, Ubudehe III – 50 Euros

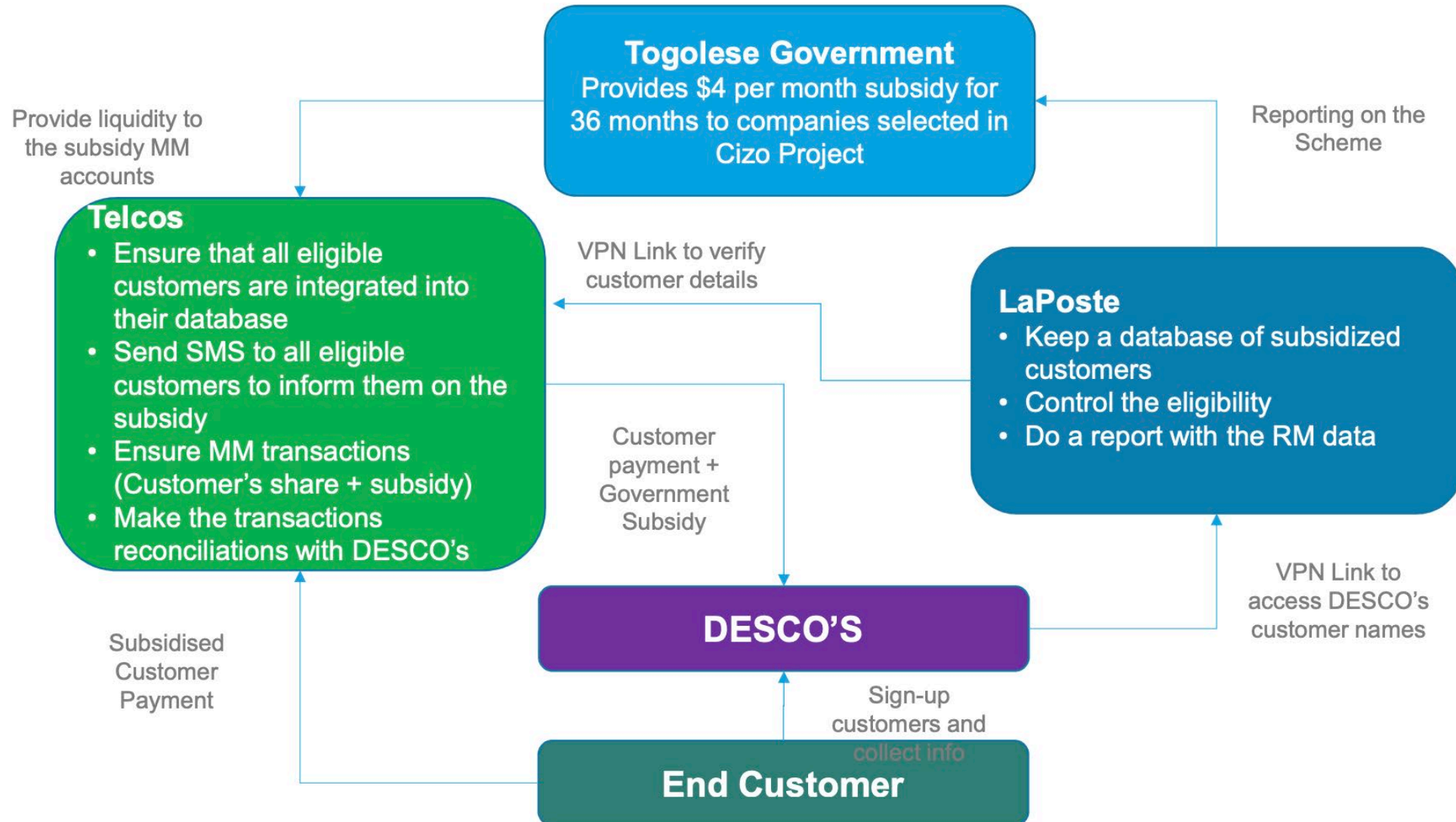


Verification process / authority: Potential benefit verified through gov't database, at any participating solar provider. Field agents then verify receipt of product and correct benefit through on-site visits and questionnaires through mobile phones. Field visits also includes additional impact questions.



Administration: Up to companies to find and verify beneficiaries. EnDev and Rwanda Energy Group (REG) track program progress through online database

Togo Subsidy Model



Next Steps for Pro-Poor Subsidies

Data & HH Information

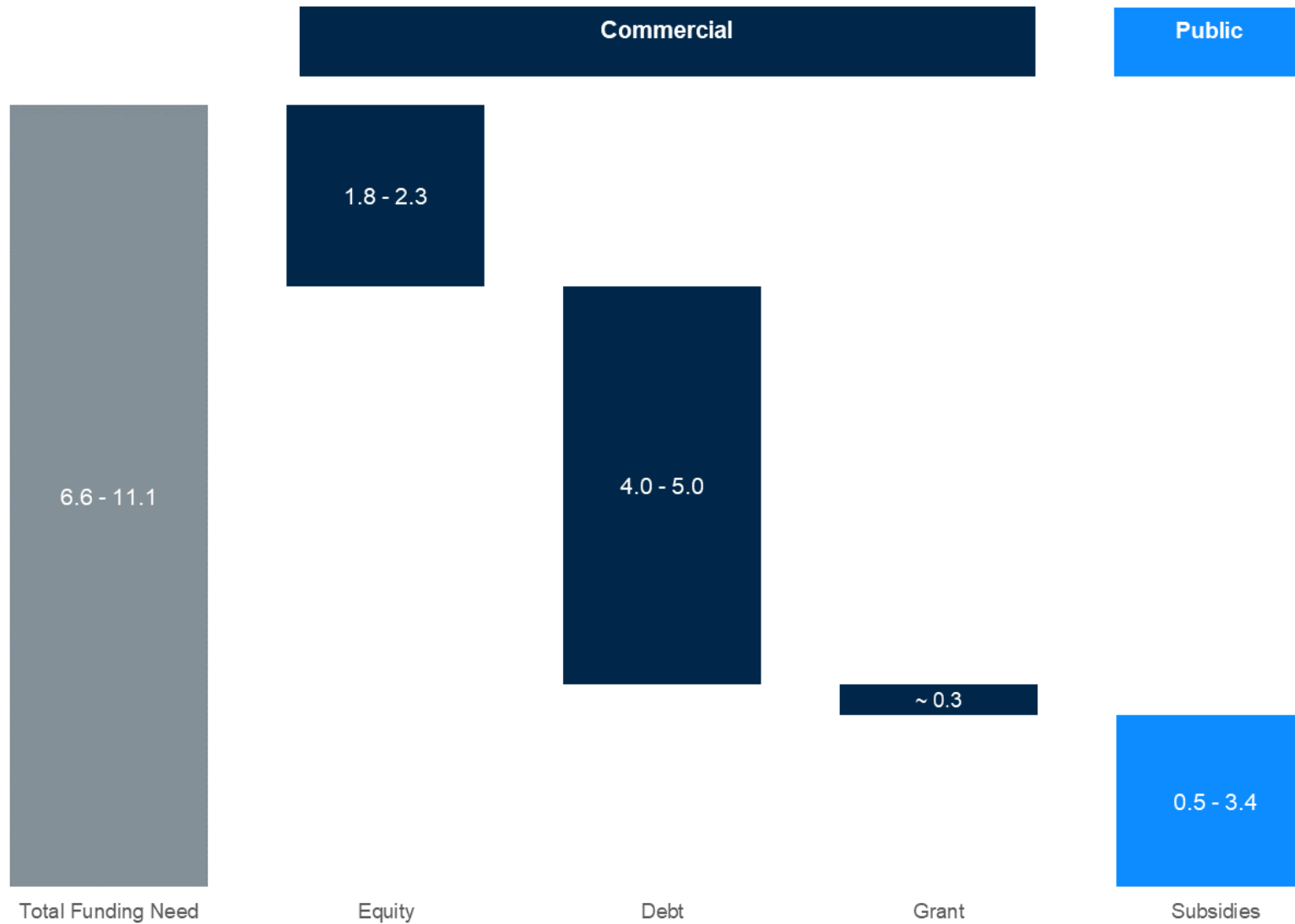
- Assess affordability gap
- Understand impact of Covid19 on rural households
- Targeting only possible with reliable household information

Pilots

- Evaluate the ongoing pilots in Rwanda, Kenya, and Togo
- Run more pilots to in different contexts
- Develop learnings on how to best design subsidies in an efficient & sustainable way – and how to scale

Collaboration

- Agree on design principles among government, development partners, industry, and investors
- Bring all stakeholders together in the design of end user subsidies



Achieving 2030 target

Both public and commercial investment will be needed to reach the 2030 Target

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Thank you