

Harald Schützeichel

## The "Gretchen Question" of the Off-Grid Industry: to serve investors or the poor?

In Goethe's Faust, Gretchen asks the main character Faust the question of religion in order to test his character. The corresponding "Gretchen question" to the off-grid industry today is: shall we serve investors or the poor?

Most companies in the industry have answered the question in favour of investors – or they had to. Reports appear almost every week that a manufacturer or PAYG company has once again received millions in investments in order to come a step closer to the goal of "energy access for all". Unfortunately, it is now clear how little this goal can be achieved with an investor-oriented strategy.

How did this come about?

Only 15 years ago, the off-grid sector consisted almost exclusively of aid organisations that implemented solar projects and purchased products from manufacturers in Europe or Asia.

Soon - driven by the hype about mobile solar lamps - manufacturers began to open their own local sales offices. This made sense because the small solar lamps depend on mass distribution and the aid organisations cannot act as powerful distribution partners. This way, it was also possible to awake the interest of the first major "social investors" in the industry. However, the primary goal was still to reach the "poorest of the poor" with the small lamps.

This only changed in a second wave of development when larger solar home systems were sold using PAYG technology. Customers asked for these systems because they did not accept solar lamps as real "energy access". At that time, however, the original motivation of the companies ("energy access for all") was overlain by an additional one: economic profitability with rapid growth. This was above all a condition for attracting the new type of investor required to meet PAYGO's immense capital requirements. The industry celebrated this as a success: not only "social" investors are now active, but also "real" investors!

But the price is high: it consists of the obligation to satisfy the growth and earnings targets of the investors. However, this is only possible if we concentrate more on the more affluent customers in the urban and peri-urban regions - the "low hanging fruits". Those who are left behind are those who were originally the motivation for many companies: customers in remote areas and with (very) low incomes. But it is precisely this group that will ultimately have to prove the success of the off-grid sector, its technology and its aspirations.

### Trapped between phobia and hubris

It is not possible to supply this customer segment with electricity profitably without structural market subsidies. Unfortunately, the industry itself is in the way. It suffers from a phobia based on the desire to differentiate itself from its non-profit roots: the industry shuns the demand for market subsidies like the devil shuns holy water. But the attitude is unwise: traditional energy suppliers (grid electricity, coal, oil, kerosene) have always used a mix of non-profit and for-profit to expand their business: grid connections and fossil fuels are highly subsidized, especially in peri-urban and rural regions.

Traditional energy suppliers even justify the subsidy with social arguments: one needs market subsidies in order to be able to pass them on to households. Only then could they afford the grid connection at all. Nevertheless, even with their high subsidies, the traditional energy companies do not waste any thought on remote areas or poorer customer segments. The grid connection for this target group can not be rendered profitable with the outdated central energy technology, no matter how high the subsidies.

If a company in the off-grid sector were also to claim that its products would have to be subsidized so that rural households could afford a solar system and at the same time generate profits for their own company, the industry would be outraged. That is exactly what is happening, and we should acknowledge this so as not to exacerbate dangerous hubris.

The widespread hubris is that the "heros" of the off-grid industry boldly claim: we are doing exactly what the traditional energy industry cannot do despite subsidies. What's more, not only do we not need market subsidies, but we also meet the return expectations of foreign financial investors.

A dangerous attitude, as the industry has come to realise. The consequence is even more serious than the permanent economic instability of one's own ("PAYG") company that man is virtually selling his soul. If one takes up the earnings and growth demands of the "real" investors, one inevitably has to neglect the remote regions and low-income customers as a target group. The few existing exceptions cannot correct the overall picture.

The goal of "energy access for all" will thus be maintained, but implementation will be postponed because unfortunately it cannot be taken care of at present. A fact which the off-grid association GOGLA disappointedly stated.

### What does "energy access for all" require?

Three measures are needed to bring the goal of "energy access for all" back at the centre of the off-grid sector:

1. The factually unnecessary and obstructive separation between non-profit and for-profit must be overcome. It is important to use the advantages of both approaches in order to avoid their respective disadvantages.

2. We need structural market subsidies for the off-grid sector, not in the existing homeopathic doses, but on a comparable scale to subsidies for traditional energy suppliers (grid electricity, coal, oil, kerosene). That would be an excellent task for an off-grid association like GOGLA.
3. For remote regions and customers with lower incomes, a concept for a subsidised basic supply of off-grid electricity is needed. More on this in a later article.

Harald Schützeichel is Editor of Sun-Connect News and Director of Stiftung Solarenergie - Solar Energy Foundation. He works as an expert for off-grid energy in Africa, was founding President of GOGLA (Global Off-Grid Lighting Association) and runs a program to promote local solar companies: [SENDEA](#).