



## OFID: MEETING THE CHALLENGES OF ENERGY POVERTY

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**T**hroughout history energy access has driven economic development. Inexpensive energy has been the great enabler of economic growth and significant improvements in productivity. A quick glance around the world at the differing levels of modern energy access provides clear evidence for this view. For developing countries to reach a higher standard of economic existence, it is vital that they experience an increased use of modern energy services. This is a stance shared by OFID and a number of development institutions and organisations including the United Nations.

In recent years a growing international consensus has formed about the need to provide modern energy to the poor in order to reach global development goals. The increased consensus on the importance of this issue has created an environment in which we can now act as never before. Together, we can take the necessary steps to build a truly global solution to the challenge of energy access and give the world's poor a chance to better their lives.

The alleviation of energy poverty is a priority area for OFID. It has been a strategic component of our operations since the 2007 Riyadh Declaration at the 3rd OPEC Summit, which recognised that “energy is essential for poverty eradication and sustainable development.” The Riyadh Declaration pledged that Member Countries would “continue to align the programmes of their aid institutions, including those of OFID, with the objective of achieving sustainable development and the eradication of energy poverty in the developing countries, and study ways and means of enhancing this endeavour, in association with the energy industry and other financial institutions.”

OFID has worked closely with the IEF and other partners to ensure that energy poverty is understood as a challenge and duly confronted. The 1st IEF Symposium on Energy Poverty noted that “access to modern energy services is one of the cornerstones to reducing poverty and a key element in achieving the Millennium Development Goals”. The same conclusions were echoed in the concluding statement at the 12th IEF Ministerial Meeting in 2010, which declared “that reducing energy poverty should be added as the 9th Millennium Development Goal”. It also called on all relevant stakeholders – including the energy industry – to step up their efforts and encouraged the IEF Secretariat to maintain energy poverty high on its agenda and future programmes of work.

In November 2011, the 2nd IEF Symposium on Energy Poverty was organised in partnership with OFID.

A key conclusion of this event mirrored what the above concluding statement had previously called for, namely that “while some energy companies are already contributing to alleviate energy poverty, all energy companies are encouraged to join this cause actively as a core element of their social responsibility.” OFID is in full agreement with this message and called for further support from the energy industry at the World Petroleum Congress in Doha, in December 2011.

Meanwhile, international momentum has also grown, culminating in September 2011 in the launch of the United Nations Initiative “Sustainable Energy for All”. OFID is part of the Secretary-General’s High Level Group which is developing an “Action Agenda” to be submitted to the Rio+20 Global Summit in June. The first priority of this initiative is to achieve universal energy access by 2030. This goal is alongside two other goals, namely a doubling of renewables in the global energy mix and a two-fold increase in the rate of improvement in energy efficiency worldwide. The challenges, however, are enormous – but not insurmountable.

### RAISING FUNDS AND AWARENESS

First and foremost is the question of financing. At least US\$48 billion will be required every year until 2030 to make modern energy available to all. This is no small feat and will demand the cooperation of all stakeholders – from developed to developing countries, from the private sector to the public sector, from aid institutions to NGOs. OFID is working in many ways to enhance its contribution. We have expanded our partnership with the Coordination Group of Arab National and Regional Institutions. And, we have signed memoranda of understanding with international bodies including the World Bank, IFAD and regional development banks such as BADEA, ADB, CAF and others, in order to combine our skills and resources to best work against energy poverty.

The financial support that OFID and others provide is a critical element in this effort, but it is also essential to raise the profile of energy poverty on the global stage. OFID has been working with other institutions to bring this issue forward in many international fora in order to establish improved energy access as a priority for policymakers.

OFID has demonstrated the importance of better access to modern energy services at conferences and international seminars. In 2008, OFID organised in Abuja, Nigeria, an international workshop on Energy

Poverty in Africa, which gathered experts from all over the world to address the problem of energy access. We have also promoted the issue at other events organised by international bodies such as the Organisation of Arab Petroleum Exporting Countries and the Arab Forum for Environment and Development. In many cases, we were amongst the leaders in promoting this noble cause, and we remain actively engaged in the debate.

We participated in the 33rd international conference of the IAEE in Rio de Janeiro in 2010, with a presentation highlighting OFID's position and vision regarding the fight against energy poverty. In line with our human capacity building strategy, we are currently sponsoring the attendance of many students from partner countries at IAEE events. In June 2011 we participated in the Vienna Energy Forum and highlighted the important role that the private sector and public-private partnerships can play in improving access to finance for energy.

### **DIVERSIFIED FUEL MIX FOR TAILORED SOLUTIONS**

In the search for solutions, it is crucial to consider local conditions. This was a major conclusion of last November's 4th High Level Forum on Aid Effectiveness in Busan. When generic solutions are implemented without a proper understanding of the local culture, economic resources or specific restrictions, they do not deliver the required results. The first criterion, therefore, should be the welfare and productive needs of the communities in relation to their resources. Where natural endowments and geography permit, renewable solutions are appropriate, but the contribution of fossil fuels should not be undervalued. Natural gas, LPG and diesel fuels are important elements of energy supply in developing countries. It will take many years before renewable solutions can provide cost-effective productive power to all locations.

In terms of energy supply, the world is now effectively in the middle of a transition period whose length is still unknown. As a global community, we need to take the utmost care to ensure that the development of new energy technologies does not hinder our efforts to provide energy to the poor and take advantage of progress already achieved.

Brazil and South Africa demonstrate genuine success in the fight against energy poverty. Brazil uses one of the world's largest river systems to produce more than 80 per cent of its electricity needs through hydroelectric power and now has an overall electrification rate of about 98 per

cent. South Africa is well on the way to reaching a 100 per cent electrification rate by 2020, by using its massive coal reserves to generate power. These examples demonstrate how the most successful countries in the combat against energy poverty have strategies based on their local resources and take full advantage of them.

At OFID we have adopted a pragmatic approach to these challenges and are open to all technological solutions. The OFID private sector facility is set to part-finance an innovative, large-scale wind project in Pakistan which will provide 100 megawatts to the national grid. We examine each case on an individual basis and only then make a decision on how to proceed. Generalities will not suffice for energy planning. The more specific information that can be obtained, the better the assessment of the problem can be and the greater the likelihood of an effective solution.

### **AFFORDABILITY AS IMPORTANT AS ACCESS**

In trying to help build energy infrastructure, the human element can sometimes be forgotten. At OFID we are aware of practical problems, such as the limited ability of poor people to pay for energy services. For instance, we are supporting the AMRET micro-finance institution in Cambodia, which will assist entrepreneurs to finance the upfront costs of energy equipment. Such projects give OFID a better understanding of the challenges. We seek not only technological but also innovative financial solutions to increase access to energy. We hope our progress up the learning curve will become faster as we deploy our new energy facility, the Energy Grants Window, which will help small-scale projects provide decentralised energy services in rural areas and give us insight into a wider range of projects.

With the right commitments from donor and beneficiary countries, with clear individual energy plans for each country, and with accountability in clear and quantifiable targets, the proper conditions will be in place to encourage investment and ensure universal access to modern energy services by 2030. However, it must be noted that the governments of developing countries are in the driving seat, as they alone can implement the reforms necessary to attract investors. Stable environments must be in place before any progress can be made. As mentioned above we have already been working with our partner countries and are hoping to develop a bigger pipeline of bankable energy projects with them.

## BUILDING CAPACITY

In combating energy poverty we should not forget the most important issue of all: fighting energy poverty is fighting poverty itself. Studies of successful energy projects emphasise that viable economic activities played a crucial role. There will be a higher probability of success, if economic activities are identified and targeted to ensure the long-term sustainability of projects. If we can ensure that better energy access makes a significant difference to the living standards of the community, then we will not only enable people to pay for the energy services provided, but also give them the means to generate demand for other goods and services.

Developing countries, especially in Africa, have been asking for assistance with capacity building, from training administrators to helping create effective tax systems. The domestic economy can make a bigger contribution to financing energy utilities and new investment, once tariff collection is improved and the amount of waste is reduced. Better governance would directly boost energy access by

raising the amount of available funds, not only to build projects but also to maintain them.

While the international community gets behind the UN's Sustainable Energy for All campaign, OFID is already making an impact on the ground. In 2011, energy initiatives accounted for 25 per cent of all the activities of our different financing windows. These included public sector projects to finance electricity generation in Bangladesh and Nicaragua and the provision of funds to help extend the national grid in rural parts of Ethiopia, the Gambia and Kenya. Most of these projects are going to be implemented in close cooperation with the national governments.

In June 2011, OFID's Ministerial Council endorsed a US\$1 billion resource replenishment, a sum that will substantially augment our existing capacity to combat energy poverty. These increased resources will be further leveraged by our cooperation with sister institutions and other international organisations. The strength of these strategic partnerships will allow us to strive together in confidence towards providing universal access to modern energy services by 2030. ■

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OFID IS EXTENDING ITS FUNDING INTO RENEWABLE ENERGY