



The Developing World and the Electricity Challenge

WORKSHOP SUMMARY



Introduction

The Electricity and Development Workshop, “**The Developing World and the Electricity Challenge**”, was held at the headquarters of the International Energy Agency (IEA) in Paris, on 17 and 18 January 2005. The Workshop was organised by the IEA in co-operation with the United Nations Environment Program, the United States Agency for International Development, the German Ministry of Co-operation, the United Nations Industrial Development Organisation, and the United Nations Development Programme. Further workshops with a regional focus are due to follow, organised jointly by UNEP.

The objective of the Workshop was to **improve the understanding of the role of electrification in alleviating poverty and to identify creative ways to improve investment flows to energy projects in developing countries**. The Workshop brought together over 100 speakers and participants, from government, lending institutions, public and private utilities and academia from developed and developing countries from all parts of the world. The importance of the Workshop lay not only in the two days of dialogue conducted, but also in creating a network for the longer term co-operation that will be necessary to make inroads into overcoming energy poverty.

Workshop participants were welcomed by Mr. Claude Mandil, Executive Director of the IEA and Ms. Monique Barbut, Director of UNEP. The first day the floor was given to a number of distinguished speakers, including the Deputy Minister of the South African Ministry of Energy and Mines, the State Secretary of the Dutch Ministry of Housing, Spatial Planning and the Environment, the Federal Secretary of the Pakistan Ministry of Water and Power and the Ambassador of Kenya to France.

Synopsis

Below are some of the key points that were highlighted in discussions during the course of the Workshop.

Universal electricity access has been recognised as a basic human right. Being a prerequisite for education, sanitation and health, access to a minimum level of electricity per person is required to help alleviate poverty. Although **access to electricity per se will not alleviate poverty**, greatly increased quality and quantity of electricity services will be required in the developing countries as a means to meeting the Millennium Development Goals. This issue is particularly crucial in Sub-Saharan African and South Asia, where over 60% of the population does not have access to electricity.

Governments need to take the responsibility for setting the general framework and providing the infrastructure to ensure the availability of this basic service. The private sector could however have a significant role to play in providing the service. **Strong political determination and willingness to prioritize electrification on the agenda are essential for alleviating poverty**, and more specifically for promoting overall electrification. Rural electrification needs to be set as a clear target; it will not come as a by-product of broader policies. With over 400 000 annual connections in the past decade, and the aim to achieve universal access by 2012, South Africa is a good example of this. The pursuit of a mission-oriented strategy depends on the ability to successfully ring-fence the resources set aside for electrification.

The IEA estimates that the **investment requirements for electricity generation, transmission and distribution in developing countries will amount to over 185 billion dollars per year**. Even with investment of this magnitude, 1.4 billion people will still have no access to electricity in 2030. **Both domestic capital and foreign direct investment will be key in filling this requirement**. In order to attract private investment capital, the government needs to secure a stable investment climate. Throughout the course of the Workshop, good governance, transparency and anti-corruption efforts were brought out as essential preconditions for such a climate. Keeping the rules once established or once reforms have been introduced, is equally important as creating the proper framework: “Setting the rules and keeping them” was identified by both government and private sector Workshop participants as crucial. Having an independent regulator was identified as a means to provide stability and transparency.

However, **reforms should be seen as a tool, not as a solution**. Restructuring the electricity sector is a necessity, but it is not a panacea. Even if all the conditions are present, it does not guarantee that investment will flow, but if all the conditions are not present, it does guarantee that investment will not. The Meghnaghat Power Project in Bangladesh was given as a good example of a success story in this regard – transparency of bidding, competition and good governance all contributed to mitigating the risks involved and thus securing the necessary investments.

Various successful experiences were highlighted in the course of the Workshop, demonstrating that **there is not a unique way of achieving electrification**. No single easy solution applies to the electrification challenge: one size does not fit all. Rather than being seen as a commodity, electrification needs to be treated as a service. Electricity does not simply provide light and entertainment; it should also be seen in its capacity as a tool for income-generating activities and as a means for the expansion of opportunities.

For the very poor, affordability is a particularly important issue. In this context, subsidies, although often given a bad name, can be successfully resorted to. So-called “targeted subsidies” can for instance come in the form of pre-paid meters, as the South African example illustrates. **Availability and affordability, however, are not sufficient; sustainability of investment and of electricity provision is also key**. It is vital for sustainability that electricity is not perceived as a free service, and that habits of non-payment are broken.

Regardless of the chosen path, providing a basic electricity service is of course never free. Although public funding and international lending and investment are crucial, speakers emphasised that **mobilising domestic capital will also be critical in bridging the investment gap**. In this complicated process, every stakeholder has a role to play, according to his competence. There is clearly a need for a better integration of the key players at various levels and stages of the process, ranging from intra-regional pooling of resources and trade enhancement to project-specific public-private partnerships and local co-operative efforts. **In addition to multinational and government-level actors, the involvement of local communities is indeed indispensable**, especially when

tackling rural electrification, which is less likely to be taken up by the international private sector. The examples of the Barefoot College and Grameen Shakti illustrate how successful capacity-building can foster good results.

The replication and scaling up of success stories requires comprehensive analysis of several additional determining factors. **Adequate capital is available in international markets**, but this is not enough to channel investment to electrification projects. Several Workshop participants highlighted that there may be a lack of well-designed large electrification projects submitted for financing. In the past, electrification has often failed due to the lack of appropriate demand-side management. Electrification, if driven by demand, is more likely to respond to the actual needs of the poor populations. Another obstacle that was outlined in the course of the Workshop is that while the private sector can easily be engaged in the electricity generation process, this is rarely the case for transmission and distribution. Consequently, **transmission and distribution often need to be secured independently of profit-oriented financing schemes**.

Conclusions

Electricity can make a substantial contribution to poverty alleviation by contributing to income-generating activities. **The IEA estimates that an additional 16 billion dollars per year of investment in the electricity sector of developing countries will be needed to reach the Millennium Development Goal of halving poverty by 2015.**

Throughout the Workshop, it was clearly established that **there is no “silver bullet” for the electrification challenge**. Whether through private or public funding, local or global initiatives, conventional or renewable energy sources, the options chosen for each individual project should consider feasibility and make economic sense.

The history of rural electrification in developed countries has demonstrated the importance of public policy, public investment, and prioritisation of rural development. In developed countries, it took 50-100 years to achieve full-scale rural electrification. Especially where rural electrification is concerned, investment does not simply “trickle down” to where it is needed; **dedicated efforts, local-level initiatives and ring-fencing of resources for electricity provision are indispensable**.

There is widespread agreement that **energy is a prerequisite for economic development**. It is also in the best interest of the industrialised world to help alleviate poverty in the developing world because successes can not only significantly reduce human suffering and improve the quality of life in host countries, but can also help reduce regional and global instability.

While efforts are being undertaken by all the key stakeholders represented at this workshop, the importance of energy for development is not adequately highlighted in the poverty alleviation debate. Therefore it is our plea from this workshop that **energy should be recognized as a key component of the development debate**. The IEA Secretariat will soon present this summary to its Member Country governments, thus aiming to raise the profile of electricity and development on the energy agenda of key industrialised countries.