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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE  
EUROPEAN PARLIAMENT**

**on the future development of the EU Energy Initiative and the modalities for the  
establishment of an Energy Facility for ACP countries**

## 1. INTRODUCTION

Energy is critical for all human activity, and access to modern energy services is a prerequisite for social and economic development. However, in today's world access to energy is not evenly and fairly distributed.

While OECD countries, representing 70% of global energy consumption, have decreased their exposure to energy shocks, developing countries are more and more exposed. They are generally more dependent on imported oil and use twice as much oil per unit of economic output. In addition, energy price fluctuations have a higher impact on their economies due to their fragile financial situation. Finally, access to modern energy services is most often limited to urban and industrial centres. Limited access to high quality, reliable energy services is a strong barrier to the economic and social development of the poor. In addition, air pollution from traditional energy sources and poor standards of modern energy installations affect the health particularly of the poor.

Recognising the importance of improving energy access for the poor, the EU launched the EU Energy Initiative for poverty eradication and sustainable development (EUEI) at the World Summit on Sustainable Development (WSSD). The objective of the EUEI is to contribute to the achievement of the Millennium Development Goals (MDGs) through the provision of adequate, affordable, sustainable energy services to the poor. Ownership by beneficiaries is critical to success.

The EUEI is a joint effort of the Commission and the Member States creating synergies between their respective development policies and activities. It is implemented through dialogue and specific partnerships with developing countries, including cooperation with civil society, the private sector and financial institutions. The EUEI has made progress since Johannesburg. The EUEI "Energy for Africa" conference, held in Nairobi in November 2003, contributed to African ownership while outlining key priorities. Dialogue with developing countries has revealed a need for the EU to invest considerably more resources in this area.

The purpose of the present Communication is to explain how the EUEI can be made more operational in the future and respond to requests by ACP countries. To sharpen the focus and visibility of the energy and poverty agenda, the Commission proposes the establishment of a €250 million ACP-EU Energy Facility, subject to a co-decision by the relevant EU and ACP bodies.

## 2. THE ENERGY AND POVERTY CHALLENGES

At present, nearly two billion people in the world – concentrated mainly in rural and peri-urban areas of developing countries - do not have access to modern energy services. Sub-Saharan Africa is a dramatic example of inequality in the energy field, with over 80% of the population having limited access to modern forms of energy. The social and economic development of poor communities is limited or even deadlocked by the present unsustainable use of wood and other forms of biomass for energy purposes, over and above the difficult and expensive access to other forms of energy, such as electricity and liquid fuels.

**Energy and poverty reduction:** Access to adequate, affordable and sustainable energy services is necessary to fulfil most development objectives, e.g. within health, education,

light, heating, transport, agriculture, industrial production and modern means of communication. This connection was recognised by the WSSD in the Johannesburg Plan of Implementation that established the link between access to energy and the MDGs, noting that access to energy facilitates the eradication of poverty.

**Energy access:** Ensuring access to energy services is a complex challenge which cannot be left to market forces alone to resolve. Concerted action of the public sector is required. In addition, there is a large variety of stakeholders, ranging from poor communities to local and national governments and trans-national companies, energy sources and technology options which vary according to location. There is no “one size fits all” recipe for energy service provision.

**The global character of energy markets:** While OECD countries have managed to decrease their exposure to oil shocks, developing countries have increased theirs. On average, developing countries use more than twice as much oil per unit of economic output than OECD countries. Moreover, their financial situation means that they are less able to weather turmoil on oil markets.

**Energy finance:** Almost half of the global investment required to improve and replace supply capacity up to 2030 is attributed to developing country needs. More than ever before, capital needed in the energy sector will have to be raised from private and foreign sources. However, the investment risk is perceived to be prohibitive, in particular when it comes to improving access to energy for poor consumers. Public and ODA funding must explore new ways to catalyse and facilitate a sufficient flow of investment in this sector.

See Annex for further details.

### 3. THE EU POLICY BACKGROUND

It is time to give increased attention to the critical role of energy in poverty eradication in development assistance. While WSSD achieved much in putting energy back into international development debates, the energy needs have not been sufficiently addressed at a practical level. Energy sector commitments have been decreasing for the past decade and the present trend is not upwards. Grants to the energy sector of developing countries have halved in the last few years, compared with the amounts of the nineties.

Nevertheless, several EU Member States engage in energy in bilateral development cooperation programmes, based on policies that are currently in line with the aims of the EUEI.

While energy itself does not figure among the six sectoral priorities of the Community’s development policy, it is linked directly or indirectly to every one of them. The Commission’s Communication “The European Community’s Development Policy”<sup>1</sup> acknowledges the importance of energy while focusing on the reduction of poverty. With regard to ACP countries, no African or Caribbean country directly addresses energy under the 9th EDF, while five ACP Pacific countries have energy identified as a focal sector of cooperation in their Country Strategy Papers.

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<sup>1</sup> COM(2000) 212

The EUEI was announced for the first time in the Commission's Communication on the external dimension of sustainable development (COM(2002) 82). EU Member States have confirmed their support in various decisions of the Council of the European Union and in the European Council, leading to the successful launch of the Energy Initiative for Poverty Eradication and Sustainable Development (EUEI) at the WSSD.

The Commission's Communication "Energy Cooperation with the Developing Countries"<sup>2</sup> established a framework for energy cooperation with developing countries, focusing on issues such as the necessary reforms of the energy sector, technology transfer, demand and supply-side cooperation, promotion of energy diversification, facilitation of grid extensions and interconnections, etc. The Communication highlighted the role of the EUEI in this cooperation.

After Johannesburg, the Communication "The World Summit on Sustainable Development one year on: implementing our commitments"<sup>3</sup> took stock of the EUEI development in late 2003. The Communication recognised the progress of the EUEI and acknowledged the need for adequate financing for the Initiative. The scope for creating synergies between the EUEI and the Johannesburg Renewable Energy Coalition (JREC)<sup>4</sup> was also recognised.

In the Conclusions of the General Affairs Council (8566/04), April 2004, the EU Member States confirmed the need to provide adequate financing for the Initiative. The Council furthermore recognised that greater involvement of the Commission and the Member States is needed to respond to the developing countries' priorities as expressed at the EUEI "Energy for Africa" conference in Nairobi, and requested the Commission to take the lead in the follow-up to this conference.

The proposal for establishing an Energy Facility for ACP countries reflects this policy context and intends to bring the EU's commitments further towards implementation. It is suggested that the funds for the Energy Facility should be allocated from the "conditional billion" of the 9th European Development Fund (EDF), pending a final decision at the Council meeting in March 2005.

#### **4. PROGRESS TO DATE - TRANSLATING POLICY INTO ACTION**

The EUEI has established a secretariat within DG Development to stimulate synergy and cooperation. The Advisory Group, composed of Member States, Commission officials and experts, is the main forum for European dialogue and coordination. In the European context, the EUEI dialogue has been undertaken with the active involvement of EU Member States and the European Commission, and has also included the European Investment Bank (EIB). EIB has expressed interest in exploring possibilities for combining EDF grants and EIB loans.

Strong ownership from beneficiaries being a key to success, the EUEI's priority after WSSD has been to engage in a dialogue with developing countries and regions.

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<sup>2</sup> COM(2002) 408

<sup>3</sup> COM(2003) 829

<sup>4</sup> As of June 2004, JREC counted 88 member governments, including 54 developing countries. Members signed up to the JREC Declaration committing to "...with a sense of urgency, substantially increase the global share of renewable energy sources ...".

## **Africa: an urgent priority**

It seems clear that Sub-Saharan Africa will have difficulty in reaching the MDGs unless substantial extra efforts are undertaken, including in the energy field. A number of Member States are active in the energy sector in Sub-Saharan Africa, and have built up valuable experience and capacity, both in the policy and strategy development as well as in implementation. In these countries they act as EUEI facilitators. African governments are gradually addressing energy issues into their poverty reduction strategies, increasing their capacity to plan and implement energy-related activities.

The EUEI “Energy for Africa” conference held in Nairobi in November 2003 represents a milestone in EUEI dialogue with Africa and was attended by government representatives from about 40 Sub-Saharan African countries. The main objective was to identify priority actions at national and sub-regional level. Conference recommendations reflect African country ownership of this agenda and suggested the following priorities:

- Rural energy in general and in particular rural electrification
- Energy for households, biomass and substitutes
- Strategies and policies for the sector, both at national and at regional level
- Capacity building at all levels.

Follow-up EUEI workshops will be organised to help identify successful energy service delivery models and how they can be financed and implemented on a wider scale. Other Commission-funded activities will further stimulate dialogue and contribute to the creation of a framework for action:

- Regional projects are to be financed by the intra-ACP allocation to energy.
- The COOPENER component of the Intelligent Energy-Europe programme, managed by DG Energy and Transport, co-finances projects aiming at creating the institutional conditions for improved access to energy in Sub-Saharan Africa.
- Similarly, DG Research supports a renewable energy partnership for poverty eradication and sustainable development in Africa (“Partners for Africa”) involving a number of European and African partners.
- DG Environment sponsors several projects in the context of the Johannesburg Renewable Energy Coalition which support and enhance the EUEI dialogue, including the work on innovative financing mechanisms (i.e. the Patient Capital Initiative), and on databases for renewable energy policies and measures and databases.

## **The Caribbean and Pacific**

Small island countries are particularly sensitive to energy issues. The high cost of shipping fuels to dispersed islands means that electricity costs an average 20–50 €/kWh, compared to international costs of 5 €/kWh while there is untapped potential for increased energy efficiency and renewable energy use.

The island states in the Caribbean and the Pacific took an early interest in the EUEI, and participated actively in the dialogue before WSSD. Follow-up EC and Denmark engagement with regional organisations in ACP Pacific island states led to the establishment of a partnership with the Pacific Island Countries, while the EC and Germany initiated similar activities in the Caribbean.

See Annex for further details.

## 5. THE FINANCIAL CHALLENGE AND THE NEED FOR INNOVATIVE MECHANISMS

Since WSSD there has been a recognised need for a significant increase in funding for energy and poverty in order to achieve the Millennium Development Goals. So far, provision of energy services to the poor has been able to attract only marginal private investment. Innovative and flexible funding mechanisms are urgently required to use the leverage effect of public resources and ODA and attract more resources from the private sector, development banks and financial institutions. Public-private partnerships (PPPs) are a core instrument in the EUEI strategy, and the energy sector offers numerous possibilities for the EU and its developing country partners to work together in such partnerships with the private sector, financial institutions and civil society. However, greater efforts are needed at the political level to provide adequate, faster and more flexible resources and instruments, including the provision of seed capital.

Since Johannesburg the EUEI has built a solid base for specific actions and is now ready for a quantum leap. To maintain the momentum and to actually deliver on the ground, substantial additional resources are needed. Such resources should be provided by the EU as a demonstration of its commitments to the MDGs and the Johannesburg Plan of Implementation.

See Annex for further details.

## 6. AN ENERGY FACILITY FOR ACP COUNTRIES

The Commission proposes that the first step in this direction should be the allocation of significant funds for an ACP-EU Energy Facility. It is suggested that, in a first phase, an amount of €250 million would be appropriate, considering the available EDF resources and the first results of the dialogue with stakeholders. The Facility will be a flexible instrument, open to joint financing with Member States and other donors and capable of adopting innovative ways of implementation. The Facility will be, on the one hand, *a catalyst* promoting initiatives, providing information, acting as a clearing-house, building research and management capacity in ACP countries and, on the other hand, *an instrument* which can provide the missing link in financing sustainable projects and activities.

### 6.1. Key Principles

**Targets:** The Energy Facility should be directed towards the achievement of the WSSD and MDG targets and should concentrate its activities in those ACP countries which already have a sound national energy policy or those which are strongly committed to developing such a policy, based on good governance principles and as part of a Poverty Reduction Strategy or similar. The Energy Facility will, among other things, assist countries to establish their institutional and regulatory framework and to attract additional financial resources for public-

private partnerships. The active participation and parallel contribution by Member States already working in the country would strengthen the Facility.

**Ownership:** The concept of ownership is central to the approach of the Energy Facility. A number of ACP countries give priority to the energy and poverty agenda and have asked to become partners in the EUEI. EUEI actions should be coherent with national policies and commitments, and ideally result from the ongoing Poverty Reduction Strategy process. Some countries are fairly advanced in developing the policy framework and would be ready for implementation. In other countries there is still a need for policy and strategy development. There is a growing awareness of the fact that energy has not been sufficiently recognised as an important element in the poverty reduction process and that there is a need to incorporate the energy dimension in Poverty Reduction Strategies. At national level, actions will be geared towards delivering energy services to the poor. At cross-boundary-ACP level the Facility will foster dialogue with African institutions and initiatives of a global nature, such as New Partnership for African Development (NEPAD) and African Union (AU). Similar processes are being developed in the ACP Island regions.

**Flexibility:** In order to be effective, it is essential that the Facility has a flexible approach to financing and is open to joint financing with Member States active in the sector, and is able to cooperate with lending institutions, the private sector, public utilities and civil society.

The Facility would primarily provide grant funding, which, by nature, has a high leverage factor, and could attract additional capital from the EIB and other EDFIs and International Financial Institutions (IFIs), in particular the African Development Bank (AfDB), the World Bank Group (including International Financial Corporation and Multilateral Investment Guarantee Agency) and other regional international financial institutions.

A maximum leverage effect should be obtained through combinations of grants and other sources, supporting preparation of projects and development of an enabling environment for investment, playing a dynamic role in creating new partnerships between communities, NGOs, public and private sectors, and providing information and support to local and European energy service providers interested in investing in the sector.

**Innovation:** The Facility intends to give innovative answers to the challenges of delivering sustainable energy services to the poor, including new types of financing with various sources of funding (local/international, private/public), special attention to the use of energy for production and income generation, and new and cross-sectoral approaches applying a menu of institutional and technical options, adapted to the specific target area. These include rural electrification; decentralised energy systems; increased use of renewable energy; and enhanced energy efficiency, including cleaner and more efficient use of fossil fuel technologies, efficient appliances and more efficient use of traditional biomass. In this context possible synergies between the Energy Facility and the Water Facility will be thoroughly explored, as will any opportunities of synergies with other initiatives in the field of energy. The synergies with the Water Facility are particularly interesting, since both facilities address the poor, and there is ample scope for combined energy-water programmes.

## **6.2. Priority Activity Areas to be funded under the Energy Facility**

The long-term objective of the Facility is a significant increase in the use of sustainable energy services for productive and social purposes for the targeted population in ACP countries, and that significant and measurable steps towards achieving the Millennium

Development Goals, in particular the goal on poverty, have been taken. In line with the outcomes of the EUEI dialogue with ACP countries, the backbone of the Facility will support activities focusing on increasing the access to modern energy services in rural areas in Africa. In the Island ACP states, the Facility will deliver outputs in the fields of energy efficiency and renewable energy. The distribution of funds between the ACP regions will follow the general principles of the Cotonou Agreement.

#### *6.2.1. Priority Activity Area 1: Delivery of Energy Services*

The largest financial contribution from the Facility will be designed to reach a substantial number of rural people and to improve their access to modern energy services. Priority will be given to those currently un-served, living in scattered settlements, villages, rural towns, peri-urban areas and remote islands. The Facility will support the joint financing of delivery-oriented investment projects, leveraging funds from Member States, other donors, IFIs and the private sector. This component of the Facility is intended to assist those countries and regions which have in place or are in the process of implementing a sound national energy policy, based on good governance principles and giving priority to energy and poverty, e.g. within their poverty reduction strategy. Proposals should ensure the economic, social and environmental sustainability of the investment, if needed, through possible financing of institutional support and strengthening of management skills measures. Innovative approaches could be triggered, in order to address energy needs, for example, in an integrated and cross-sectoral way. Proposals will have to be particularly mindful that investment into long-term energy infrastructure will lock partner countries over the next decades into a certain path in terms of energy mix determining their future security and their greenhouse gas emission paths.

#### *6.2.2. Priority Activity Area 2: Creating an Enabling Environment*

Where governance conditions are not in place for delivery-oriented intervention in the field, up to 20% of the Facility will support the development of an enabling environment for the energy sector based on good governance principles. Activities will depend on the level of policy development and institutional framework, which vary among ACP States. The Facility will assist countries in which improvements are needed to develop or implement sound national energy policies and strategies, e.g. in support of poverty reduction strategies, to improve the institutional, legal and regulatory framework, to strengthen the capacity of key stakeholders, in particular for the implementation and management of delivery-oriented energy programmes, and to improve monitoring and evaluation capacity.

#### *6.2.3. Priority Activity Area 3: Facilitating Future Large-Scale Investment Programmes*

Up to 20% of the Facility will be devoted to preparatory activities required to facilitate future essential investment plans for cross-border interconnections, grid extensions and rural distribution, preparing them for financing by IFIs, in particular the EIB and EDFIs as well as working together with the World Bank, the African Development Bank and the private sector. In the African context, due consideration will be given to African Union/NEPAD priorities. In this way, the Facility can contribute to the future mobilisation of significant additional investment in the energy sector of Sub-Sahara Africa and the Island regions. There is ample scope for the Facility to act as leverage to increase net amount of capital going to energy and development.



## 7. MANAGEMENT OF THE ACP-EU ENERGY FACILITY

The management will have to reflect the overall political approach underpinning the Energy Facility. In the first place, ownership of the ACP partners and their right of initiative is crucial in this process. Secondly, the implementation procedure should adhere to the overriding objective of promoting access of the poor to modern energy services. This requires that, thirdly, optimum use be made of grant funding and that a maximum leverage effect be aimed at, including utilising innovative mechanisms of blending financial resources.

Management of the Energy Facility will be within the Commission, staffed with officials and with the possibility of attracting outside expertise, such as Seconded National Experts, Contract Agents or similar. The existing decision-making processes established between the EU and ACP institutions will apply.

Member States will be involved in the development and overall guidance of the Facility and will be able to ensure the necessary coordination of their own bilateral activities with those of the Facility. The present governance structure of the EUEI, including its Advisory Group, will be further developed into a main advisory body of the Facility, to which Member States will send their representatives. Member States will also be involved through the work of the EDF Committee. As for water, a multi-stakeholder forum, providing interactive information to the wider constituencies of all the participants in the functioning of the Facility and channelling their inputs into the process, will be formalised under the umbrella of the EUEI.

Modalities for the implementation of the Energy Facility will be developed along the lines of the Water Facility. Principles will have to include sustainability of actions, leverage factor, support available from stakeholders already present in the field (MS, other initiatives, etc.). The instruments to be used will include:

- Calls for proposals (mainly for investment projects on a national and sub-national level). The EDF Committee will be consulted on calls for proposals before their launch. Selected projects and programmes will have to be coherent with national sector policies where they exist. It is expected that Member States already present in the field, the private sector and other initiatives on energy will assist either in the facilitation of project proposals or in the necessary accompanying activities. EC Delegations will have to advise on the project proposals and take charge of the monitoring of implementation.
- TA projects, mainly for studies and capacity and institution building projects. Requests from ACP countries will be analysed with the assistance of partners in the field. Requests aimed at enabling a proper environment for a subsequent focus on delivery-oriented projects will have priority.
- Studies and other activities required for increasing the future pipeline of financial flows by EIB, EDFIs, WB and the private sector will be undertaken following requests by the IFIs and agreement of the beneficiary countries.

A small percentage of the Energy Facility will be used to contribute to the financing of administrative expenditures for the management of the ACP/EU Energy Facility, including recruitment of external experts and promotion activities, organisation of seminars and workshops, monitoring and evaluation, etc.

## **8. CONCLUSION**

With a view to the decision of the Council on the mobilisation of the remaining €500 million of the “conditional billion” of the 9th EDF, and in order to ensure delivery of the EU’s Johannesburg commitments, the Commission asks the Council of the European Union to agree to the creation of a €250 million ACP-EU Energy Facility, and on the position to be taken in the future by the Community in the ACP-EC Council of Ministers on the creation of an ACP-EU Energy Facility.

## ANNEX

### THE ENERGY AND POVERTY CHALLENGES

At present, nearly two billion people in the world – concentrated mainly in rural and peri-urban areas of developing countries - do not have access to modern energy services. A modern, sustainable energy service means that the energy needed to deliver essential services, such as lighting, cooling, heating, cooking, pumping, motive power, telecommunication etc., is provided in a way that is safe, affordable, efficient, reliable, equitable and environmentally sound. On average, per capita electricity consumption in developing countries is barely one-tenth of the consumption in the EU. Sub-Sahara Africa is a dramatic example of inequality in the energy field, with over 80% of the population having limited access to modern forms of energy. Large populations in Asia, particularly South Asia, and in Latin America live under similar conditions. The social and economic development of poor communities is limited or even deadlocked by the present unsustainable use of wood and other forms of biomass for energy purposes, over and above the difficult and expensive access to other forms of energy, such as electricity and liquid fuels.

**Energy and poverty reduction:** Energy is a sine qua non of the action to combat poverty. Access to adequate, affordable and sustainable energy services is necessary for a good life and to fulfil most development objectives - within health, education, light, heating, transport, agriculture, industrial production and modern means of communication.

The critical connection between energy and poverty alleviation was recognised by the international community at the WSSD in 2002 in Johannesburg. More specifically, the Johannesburg Plan of Implementation (JPOI) established the link between access to energy and the Millennium Development Goals, including the goal on poverty, noting that access to energy facilitates the eradication of poverty. Among the most important links are:

- *MDGs 1 and 7:* Reduce poverty and hunger, and improve access to safe drinking water. Access to energy services facilitates economic development and creates incomes and employment e.g. in agriculture, shops and small enterprises. Energy services can improve access to pumped water for drinking and irrigation of gardens and fields. And energy is needed to cook nearly all human food.
- *MDGs 2 and 3:* Achieve universal primary education and eliminate gender disparity at all levels of education. Improved access to energy services allows women and children (especially girls) to reduce time on gathering firewood, fetching water and cooking food. Electric lighting enables home study and evening classes, and electricity is needed to use educational media and modern communication (ICT) in schools and homes.
- *MDGs 4, 5 and 6:* Reduce child mortality, improve maternal health and combat major diseases. Access to energy is needed for a modern health system, e.g. for refrigeration of vaccines, sterilisation and lighting operating theatres. Cleaner fuels for cooking will reduce indoor air-pollution and the related respiratory diseases, that, according to WHO, kills 1.5 - 2 million women and children every year.
- *MDG 7:* Ensure environmental sustainability. Improved energy efficiency and the use of cleaner and renewable sources of energy can help to achieve a more sustainable use of

natural resources, such as woodlands and other types of biomass, and reduce emissions, thus protecting the local and the global environment.

The important role of energy in poverty alleviation is increasingly recognised also by African governments, e.g. in the context of poverty reduction strategies.

**Energy access:** Ensuring access to energy services to poor communities is a complex challenge, and, as experience over the past years has shown, it cannot be left to market forces alone to resolve. Concerted action of the public sector is required. Energy, like water, is not a commodity comparable to, for example, industrial or agricultural products. Provision of energy services depends on a multitude of economic and social preconditions, policy frameworks, political circumstances and international, national or local market situations. Many stakeholders are involved, ranging from poor communities to local and national governments and trans-national companies. Energy services can be delivered from many sources and technologies. Geographical conditions are different, even within a country. There is no ‘one size fits all’ recipe to provide energy services to a particular community.

**The global character of energy markets:** Internationally traded hydrocarbons have been and still remain the overwhelming mainstay of energy economies of most developed and developing countries. While OECD countries have managed to decrease their exposure to oil shocks, developing countries are more directly exposed to their negative macroeconomic impacts. In addition to being dependent on imported hydrocarbons, their economies are also more energy-intensive than those of developed economies. On average, oil-importing developing countries use more than twice as much oil to produce a unit of economic output as do OECD countries. Moreover, their financial situation (high levels of debt, fragile balances of payment) means that they are less able to weather turmoil on oil markets. Current sustained high prices on oil markets, price volatility and insecurity of supply affect developing countries more than others. Some of these countries spend up to 50% of their trade surpluses on energy imports – with devastating results for their national economies. A mere 10 US\$ per oil barrel price increase can result in a 3% loss of GDP in some Sub-Saharan countries in the first year after the hike.

**Energy finance:** Energy demand is rising fast in developing countries. Almost half of the global investment required for improving supply capacity and replacing existing and future supply facilities in the period up to the year 2030 is attributed to the needs of developing countries (including China and India). The required investment for Africa alone is approx. 1.2 trillion US\$, as calculated by the IEA. And this is a conservative estimate which would still leave 1.4 billion people without access to electricity in the year 2030. Financing is a huge challenge for the sector, with a marked trend away from financing energy investments from public and ODA budgets. More than ever before, the capital needed in the energy sector will have to be raised from private and foreign sources. However, most investors perceive the risks of energy investment in developing countries as being prohibitive, in particular when it comes to improving access to energy for poor consumers. Public and ODA funding must explore new dimensions and design new approaches if they are to catalyse and facilitate a sufficient flow of investment including the risk capital.

## **PROGRESS TO DATE - TRANSLATING POLICY INTO ACTION**

Since WSSD, the EUEI has made progress on the organisational front and in establishing a dialogue with key stakeholders, in particular developing countries.

The EUEI has established a secretariat within DG Development to stimulate synergy and cooperation. The EUEI Advisory Group, made up of Member States and Commission officials and experts in energy and development, is the main forum for dialogue and coordination of the Initiative. Working groups are established under the Advisory Group, such as the Finance Working Group, which has compiled the strategic paper “Development Capital for Energy Access: Opportunities to Reach the Energy-Poor”.

In the European context, the EUEI dialogue has been undertaken with the active involvement of EU Member States and the European Commission, and has also included the European Investment Bank (EIB).

In this dialogue, EIB has expressed interest in exploring possibilities with the EUEI for combining EDF grants and EIB loans, e.g. where the grant element would be used for identification and preparation of projects, and/or for the drafting of Master Plans and provision of Technical Assistance in support of local administration for the management of EIB financed projects.

In line with the partnership approach and recognising the importance of strong local ownership, the immediate priority for the EUEI after WSSD has been to engage in a dialogue with developing countries and regions that have expressed an interest in the EUEI. A short summary of the progress of the EUEI in different developing country regions is given below.

#### **Africa: an urgent priority**

Nearly ten years before the MDG time target, it seems clear that Sub-Saharan Africa will have difficulty in reaching the MDGs unless substantial extra efforts are undertaken, including in the energy field.

ACP Africa is a major priority area for the EUEI, and conditions for increased action are improving. A number of Member States are active in the energy sector in Sub-Saharan Africa, and have built up valuable experience and capacity, both in the development of policies and strategies and in actual implementation. Some of these Member States play the role of EUEI facilitators in the countries where they have energy programmes. Likewise, the World Bank and non-EU donors are active in a number of countries, also with a poverty focus. After Johannesburg, African governments are gradually integrating energy issues into their poverty reduction strategies. And there is an increasing, albeit still limited, capacity in African institutions, NGOs and private sector to plan and implement energy-related activities.

The EUEI “Energy for Africa” conference held in Nairobi, Kenya, in November 2003 was a milestone in EUEI dialogue between Africa and the EU, and was attended by government representatives from about 40 countries from Sub-Sahara Africa. The main objective of the event was to identify priorities for actions at national or sub-regional level in Africa. In preparation for the conference, the EUEI undertook scouting missions or desk studies in several African countries, which prepared the ground for further action. The debate in Nairobi was stimulated by a keynote statement by Commissioner Nielson, linking energy to poverty alleviation and development, and highlighting the problems relating to the traditional use of biomass and the need for rural electrification.

In the Nairobi recommendations, adopted at the conclusion of the conference, the African countries took ownership of this agenda and suggested the following priorities for the EUEI:

- Rural energy in general and rural electrification in particular
- Energy for households, biomass and substitutes
- Strategies and policies for the sector, both at national and at regional level
- Capacity building at all levels.

In order to continue the dialogue and make the Nairobi recommendations operational in a number of countries, sub-regional EUEI workshops will take place in Southern Africa and in West Africa during the coming months. The workshops will focus on successful models for delivery of energy services to rural areas and on how such models can be financed and implemented on a wider scale.

A number of Commission-funded activities further stimulate the EUEI dialogue and contribute to the creation of a framework for action in Africa. These include regional projects to be financed by the intra-ACP allocation to energy with SADC and ECOWAS, as well EUEI-linked projects supported by other Commission services. The COOPENER component of the Intelligent Energy-Europe programme, managed by DG Energy and Transport, co-finances projects aiming at creating the institutional conditions for improved access to energy in Sub-Saharan Africa with a special emphasis on renewable energy and demand management. COOPENER projects are implemented by consortia of African and European partners. Similarly, RTD supports a renewable energy partnership for poverty eradication and sustainable development in Africa ('Partners for Africa') involving a number of European and African partners.

### **The Caribbean and Pacific**

Their remoteness and small markets make small island countries particularly vulnerable in the energy field. The further development of their societies depends to a large extent on access to transportation, ICT and energy. The high cost of shipping diesel oil to dispersed islands brings electricity production costs up to an average of 0.2–0.5 €/kWh, compared to international costs of 0.05 €/kWh. Some islands spend over 75% of their foreign currency earnings on fuel imports. At the same time there is untapped potential for increased energy efficiency and the use of renewable energy.

The island states in the Caribbean and the Pacific took an early interest in the EUEI, and participated actively in the dialogue before WSSD. The "Sustainable energy seminar for ACP Island States within the framework of EC development co-operation", held in June 2001 in the Dominican Republic was an early opportunity to exchange views and establish dialogue.

After WSSD the EC and Denmark engaged in active and positive follow-up dialogue with regional organisations in ACP Pacific island states, leading to the establishment of an EUEI partnership with the Pacific Island Countries. Parallel-financed activities by Denmark and the Commission (the Danish part is already under implementation) will help to establish national energy policies and action plans and will improve the efficiency of national electricity utilities.

A dialogue with the Caribbean Island Countries, through their regional organisation CARICOM, was also initiated, in cooperation between the EC and Germany. The development of a regional energy policy and support for the execution of the Caribbean

Renewable Energy Development Programme, co-financed by Germany, are the targets of this cooperation, which is currently under preparation. There is also increased interest to convert existing central energy generation systems towards a decentralized renewable-based energy system to reduce islands' vulnerability.

### **Other Regional Components in the EU Energy Initiative**

The EUEI is also generating interest outside the ACP area. In the Sustainable Energy Systems programme, DG RTD stimulated a strong North African participation in research related to the quantification and awareness raising of energy external costs, particularly concerning the impacts of energy pollution on human health. The Finnish-sponsored programme "Energy and Environment Partnership with Central America" is the first EUEI activity outside the ACP area, and Austria, through cooperation with the Austrian-sponsored "Global Forum on Sustainable Energy", has involved the EUEI in district heating activities in the Western Balkans. The Global Forum is also involving the EUEI in its activities in Himalayan countries.

### **THE FINANCIAL CHALLENGE AND THE NEED FOR INNOVATIVE MECHANISMS**

Since WSSD there has been a recognised need for a significant increase in funding for energy and poverty in order to achieve the Millennium Development Goals. Work done by the International Energy Agency and the EUEI Finance Working Group has shown that public funding from governments and the international donor community is not sufficient to cover investment needs. And so far, the provision of energy services to the poor has not been able to attract private investment. Innovative and flexible funding mechanisms are urgently required to use the leverage effect of ODA and attract more resources from the private sector, development banks and financial institutions. While the creation of an enabling environment through, for example, regulatory reform and government capacity building remains a key to attracting more energy investment, there are already concrete opportunities to blend public and private capital and make delivery of energy services for the poor happen. These include: energy infrastructure funds, SME support and/or consumer credit programmes, smart subsidies, rural energy funds, market and product development, etc. Furthermore, developing renewable energy sources and transfer of state-of-the-art technologies will considerably contribute to the financial sustainability of actions.

Public-private partnerships (PPPs) are considered to be a promising instrument for growth and economic development in developing countries, and are a core instrument in the EUEI strategy. Infrastructure and especially the energy sector offer numerous possibilities for blending public and private funds. A feasibility study for the creation of an innovative public-private financing mechanism is being finalized by the Commission together with interested Member States and other stakeholders<sup>5</sup>. PPPs will enable the EU and its developing country partners to work together in partnership with the private sector, financial institutions and civil society towards effective delivery of energy services to the poor.

However, with no resources of its own and no significant energy-sector allocations in the development cooperation budgets of the Community, the roll-out of the EUEI may prove too slow to maintain momentum and make a real contribution towards the MDGs. Unless greater

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<sup>5</sup> This feasibility study is commonly referred to as the JREC Patient Capital Initiative

efforts are undertaken at the political level to provide adequate, faster and more flexible resources and instruments, the impact of the EUEI will be limited to the possibilities for tapping into resources already allocated to other sectors. This will prevent it from reaching its objectives in the foreseeable future.

Since Johannesburg the EUEI has built a solid base for specific actions and is now ready for a quantum leap. To maintain the momentum and to actually deliver on the ground, substantial additional resources are needed. Such resources should be provided by the EU as a demonstration of its commitments to the MDGs and the Johannesburg Plan of Implementation.