

ENERGY, DEMOCRACY AND DEVELOPMENT: THE CASE OF AFRICA

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EU ENERGY SUPPORT TO AFRICA MEETING TODAY'S CHALLENGES

At the World Summit on Sustainable Development at Johannesburg in 2002, the international community acknowledged that access to sustainable energy services is essential for development. The Johannesburg Plan of Implementation proposed a wide range of actions, including that energy supply should be diversified and the share of renewable energy sources should be increased substantially. The EU Energy Initiative (EUEI) launched in 2002 to work in partnership with the private sector, financial institutions and civil society, has become since then, an important mechanism for EU donor coordination within the field of energy in accordance with the Paris and Accra Agendas.

Since Johannesburg, the instability of oil prices and the fear of future shortages, combined with greater awareness of climate change, have brought energy to the top of the public agenda.

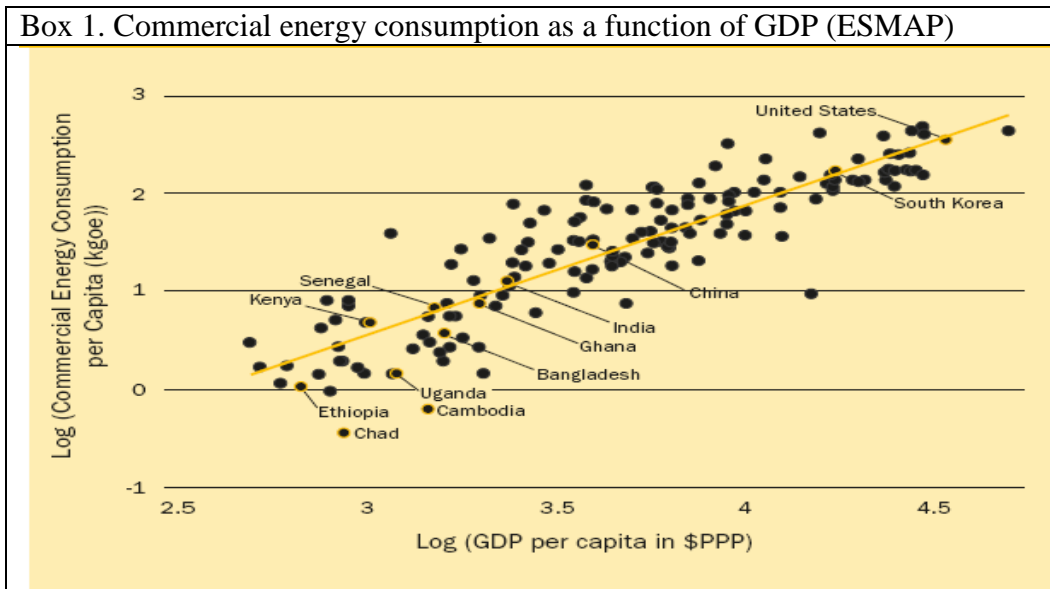
Africa and Europe have established close links in energy-related cooperation and share a number of energy security interests, making energy an increasingly important part of co-operation between the two continents. For example, energy and energy producing or consuming equipment (particularly for transport) account for a growing share in European-African trade; the geopolitics of energy and the security of supply are just as important for the EU as for Africa; Europe benefits from African fuel exports, and Africa benefits from European technical and financial support in the energy sector.

While progress is being made towards the Millennium Development Goals (MDGs), the pace of achievement is still too slow. Governance though improved in recent years is still far from optimal and average annual economic growth rates of around 5% per annum on average recorded over the last years are at risk in view of the present economic crisis. Furthermore, there are strong imbalances between the different countries and regions.

The increasingly strong presence of emerging "donors" and competitor purchasers for oil and minerals in Africa, with a more mercantilistic approach than that of the EU, adds a new dimension to the energy panorama in Africa and may limit the EU's ability to successfully push for good governance and democratic reforms in hydrocarbons producing countries. Opening dialogue with these new players and searching for convergence with them on some key principles are issues which will require increasing attention in the years to come.

1. Energy and Economic Development

Energy services are essential to overall development rather than an end in itself. Most economic activity is not possible without energy, and no country in modern times has substantially reduced poverty without massively increasing its use of energy. Economic growth creates jobs and raises incomes, even for the small and medium-scale enterprises that are the main source of jobs for the poor. Energy is an important input in agricultural production. Box 1 illustrates the relation between per capita GDP and per capita use of commercial energy.



Africa's largest infrastructure deficit is in the energy sector. Sub-Saharan Africa, with a population of 800 million, produces about the same amount of electricity as Spain, with a population of 45 million. Electricity consumption per capita is barely enough to power a 100W light bulb for three hours a day, and only a tenth of what is found elsewhere in the developing world. African firms report losing more than 5% of their sales due to power shortages, and the figure is even higher in the informal sector. To remedy the situation, infrastructure spending in the order of 30 billion €/year (for the power sector alone) will be required.

2. Africa's energy challenges

Africa has abundant energy resources (oil, coal, natural gas, hydro, biomass and other renewable sources) but these are unevenly distributed. There is a significant disparity between sub-Saharan Africa and North Africa. While some countries are major exporters of oil and gas, access to energy services in sub-Saharan Africa is the lowest in the world: More than 600 million Africans still rely on traditional biomass as their main source of energy and are subject of the daily drudgery of fuel collection, health effects of smoke inhalation, as well other economic, social and environmental repercussions.

About 500 million people in Africa have no access to electricity. The present trend is not encouraging: at current population growth rates, more than 60% of Sub-Saharan Africans would still lack access to electricity in 2020. Even in areas served by national grids, electricity service is

in crisis, due to higher oil prices, inefficient operation and lack of maintenance and declining production from hydro-electric production.

Africa's potential for power generation (both fossil and renewable) is largely unused. The development of Africa's own energy resources will reduce the bill for oil imports, will provide energy services to Africa's people and will generate export revenues. Thus, properly used energy-related income can be used as an engine for development.

Africa's energy problems require solutions that are adapted to the social, economic, geographical and environmental realities of the continent:

- The unsustainable use of traditional fuels (wood, charcoal) creates a link between energy use and deforestation and desertification, particularly in the Sahel region.
- Women and children are especially affected by the dependence on gathering of traditional fuels occupying much of their time and by smoke inhalation causing respiratory illness and death.
- Decentralised solutions are essential. Building economically viable and sustainable energy systems that reach out to rural and isolated areas in many Sub-Saharan countries is difficult, due to low population density in combination with low incomes.

Creating sustainable delivery mechanisms for decentralised energy services will require sustained effort and support by the international community, working with local communities. Regional cooperation is essential, due, notably, to the distance between resources and users, and the small size of national energy markets.

3. Priority areas for action

3.1 The mobilisation of local resources is undoubtedly one of the keys to development. Extractive industries revenues pose both challenges and opportunities for the national development process. Managing these challenges and reaping the potential benefits starts with a transparent and proper management of these resources within the context of a country development strategy. Enhanced corporate responsibility by the international investors would provide further synergies and further support these efforts, followed by

3.2 Transparency in resource-induced cash flows could be supportive of the development oriented management of revenues from natural resources. In the energy sector, transparency is an essential ingredient for improving the business environment. African countries should increase their efforts in creating transparency, in order to help to increase the flow of revenues from African extractive industries into African economic development.

3.3 Promoting enabling frameworks: Since public resources are insufficient to meet the energy challenge, it is essential to create frameworks that attract and combine private and public investment. This includes the creation of the necessary stable, predictable and long-

term regulatory, fiscal and legal environment needed to make private investments and operations secure, attractive and sustainable.

3.4 Broadening the scope of energy development co-operation

No country has achieved significant gains in human development and broad based sustainable growth without a rising share of population having access to modern energy services. But the energy development agenda is broadening up as the energy challenges facing the world today are moving higher in the global agenda.

With limits in future oil supply, volatile oil prices and the surge of consumption of emerging economies, energy scarcity has become a main concern. A second major challenge is to cut greenhouse gas emissions to a level which will not cause irreparable damage to the climate.

As a result the EC has revisited its policies and acknowledges the need for increased attention to the following:

- Invigorate the dialogue between the EU and Africa at all levels particularly on the following issues:
 - energy security, the external aspects of energy policy, the geopolitics of energy resources, transparency of energy markets;
 - energy efficiency and sustainable exploitation of indigenous resources, technology transfer and the role of energy in economic and social development, principles of transparency and good governance;
 - cooperation between energy exporting and energy importing countries, and cooperation on regional energy infrastructure and energy markets
 - Increased links between the energy and climate change agendas.
- Associate key players such as the European and African private sector and financial institutions. Among other issues the dialogue should embrace communication and transparency in the economic sector through regular round table meetings of experts, policy makers, private sector, civil society and other stakeholders.
- Build capacity within appropriate African entities to enable them to assume their responsibilities and facilitate their role.

4. The EU Approach

Whereas in the past, most of our energy cooperation has been at the national level, supporting national programmes and power utilities through them, two dimensions were insufficiently covered by such instrument, the local level, calling for innovative decentralized solutions involving the private sector and local actors, and the regional level, aiming at interconnected energy systems regionally and across Africa for increased energy security and reduced costs through power trade.

4.1 Decentralized Solutions for Sustainable Energy Services

Decentralized solutions are an important complement to expanding the national networks to areas which are otherwise not accessible due to high cost. The decentralized solutions must be sustainable from an economic, environmental, and social point of view, and adapted to local conditions. For electricity supply based on diesel generators, sustainability has often been a problem and is so even more as oil prices rise.

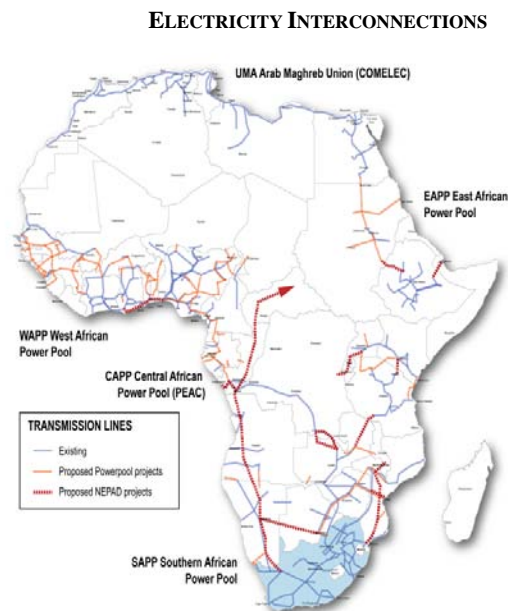
Rural and isolated areas, located away from national grids, constitute a market where renewable energy would be the preferred choice and not fossil fuels. Renewable systems, implemented at local level, would not only be providing modern improved energy services to the poor, but could also be a source of employment and enterprise creation. More efficient energy use can make decentralized systems more sustainable economically.

Implementation of decentralized solutions requires the engagement of local actors as well as local private sector and civil society. Local actors are important where central resources are not sufficient, as well as for delivering services that satisfy the actual needs rural people and the communities in which they live. Engaging the private sector would be equally important to provide required skills and for making additional financial resources available.

4.2 Fostering regional Interconnections

The unit cost of producing power in many SSA countries is high, due to suboptimal system planning, low operating efficiencies and reliance on high-cost small generating units when regional sources could provide power at lower cost. Africa's substantial indigenous energy resources are inefficiently used. There is a wide convergence that Africa's substantial energy resources can be optimally exploited only from a regional platform.

Most countries in mainland Africa by now belong to power pools. These pools should act as the platforms where projects with regional impacts are discussed and prioritized. It is also foreseen that the pools will increasingly become the clearing houses for regional electricity trade transactions. The power pools include national utilities of member countries that are responsible for optimizing use of regional energy resources and country-to-country support during an energy crisis.



The increased importance of the regional dimension stands out in view of the economic crisis and effects of climate change, regional integration contributing to better energy security, widening markets and lowering of costs and diversification of available energy resources. This has led to concerted EU action being initiated within the framework of both the Africa-EU Partnership on Energy and that on Infrastructures which focuses on improvement of interconnectivity at all levels.

4.3 An integrated framework for action

Recognition of the broader needs to tackle the energy challenges of today has led to the concept of an integrated framework, to ensure full complementarity of EU financial instruments for energy and to attract additional financing from member states and from the private sector. The integrated framework comprises, in addition to the traditional Regional and National Indicative Programmes (supporting regional, cross border and national programmes and projects through Regional Economic Communities (RECs) and national governments), as new elements, the Infrastructure Trust Fund (supporting projects of continental importance and regional interconnections), and the Energy Facility (supporting renewable energy programmes and projects on a local scale).

The Infrastructure Trust Fund, the new financing tool created in support of the Africa-EU Partnership on Infrastructures, became operational in June 2007. Its aim is to increase EU investments in regional infrastructure in Africa, working together with other initiatives, actors and instruments, and on the basis of African ownership. The Trust Fund combines grant resources from the European Commission and EU Member States with the lending capacity of the European Investment Bank (EIB) and EU Development Financing Institutions and the African Development Bank (AfDB). Projects supported so far in the energy sector includes regional interconnections (the Caprivi link between Namibia and Zambia), regional hydro power plants (Felou) as well as feasibility studies (Ethiopia – Kenya interconnector)

The EU Energy Facility is a catalytic instrument, designed to trigger actions and funds by MS but also utilize MS capacity whenever relevant. Being an "EU" facility, it must be seen as a tool to deliver coordinated and co-financed actions with MS. The next Energy Facility, to be launched in the summer of 2009 will have a special focus on access to modern energy services in rural and isolated areas; it will work with decentralised actors and the local private sector, and concentrate on local financing gaps and capacity constraints. It will be anchored in national and regional strategic frameworks and within clearly defined strategies and priorities of the ACP partner countries.

The EU strategy for the energy sector is also intimately linked to the strategy to address climate change. Climate change aspects with a view to mitigation need to be integrated in all energy sector programming and the possible consequences of climate change has to be considered when designing energy interventions. The EU instruments on climate change under the thematic programme, e.g. the Global Energy Efficiency and Renewable Energy Fund (GEEREF) offering new risk-sharing and co-funding options, and the Global Climate Change Alliance (GCCA) programme, reaching out to the countries least responsible for, but most affected by global warming, are complementary to the regional, national and local instruments. In addition, the

Global Carbon Finance Mechanism (GCFM) is proposed as an EU bridging initiative to frontload funding for adaptation in priority of the most vulnerable and poor countries.

The Africa-EU Partnership on Energy, which was launched at the Lisbon Summit in 2007, is a long-term framework for structured political dialogue and cooperation on energy issues of strategic importance to Africa and Europe, in particular energy security and energy access. The Energy Partnership will address energy issues at all levels: local, national, regional, continental and global, and mobilize increased resources to support Africa's energy development. The priorities include: increased access, energy security, scaling up of investments, renewable energy and energy efficiency, improved management, promotion of transparency, enabling frameworks, technical cooperation as well as addressing climate change.

Conclusion

Only a concerted effort by African and non African partners, private and public sectors, energy users and energy producers can meet the energy challenges of Africa. The EU Joint Development Policy Statement (EU Consensus on Development) and the EU Strategy for Africa have designated energy as one of the sectors for joint action.

Such action will be carried out in a context where major global actors are acting vigorously to facilitate their access to parts of Africa's energy resources. Europe can play a major role in actively promoting its common values: respect for human rights, democracy, good governance, solidarity, the rule of law and decisively contribute to long term sustainable development.