

## Position paper on governance and capacity building for the ACP-EU Energy Facility

### 1. Purpose of this paper

*There is wide variation in the level of policies on conventional and renewable energy sources and in institutional development among ACP countries. Opportunities to achieve the energy-related MDGs and WSSD targets in a sustainable way are greater in ACP countries which already have a sound national energy policy or which are strongly committed to developing one, based on good governance principles, and where priority is given to spending on sustainable energy as part of national investment and development strategies, such as the PRSPs. However, countries with weak policies and an inadequate institutional framework must be supported to reform the energy sector, to strengthen their institutions and build up their capacity to increase the impact of existing investments, to attract additional financial resources, to build capacity for operation and maintenance, to improve sustainability and to target the needs of the poor better. ACP countries also need to assess where biomass and biofuel development can be a sustainable option contributing to local livelihoods<sup>1</sup>.*

*Therefore, the Energy Facility aims at providing increased assistance to ACP countries where improvements are needed to develop/implement sound policies and frameworks in these areas<sup>2</sup>.*

Increasing access to safe and sustainable energy services is not mainly a technical issue, even if some strategical problems remain to be solved regarding technologies (indeed, grid extension cannot ensure access to electricity for everybody and the whole range of technical options has to be used depending on the context: grid extension / mini network / off grid solutions; renewable / thermal).

But the technologies, most of them mature and well-tested, are not the main problem today. The problem is a very low level of investment critically related to governance and capacity issues.

As regards biomass, while it concerns a major part of the population in developing countries and the current demand of energy (mainly for heating/ cooking) could be satisfied by this mean, it has been only marginally taken into account by national and global players and its legal and regulatory frameworks are often inadequate.

Therefore, improving governance and increasing capacities are key to improve access to energy services.

**The purpose of this paper is to define the needs in terms of governance and capacity building in ACP countries and establish guidelines for projects and activities to be co-financed by the ACP-EU Energy Facility.**

Despite the nineties' general trend to privatise historical energy companies in the ACP in the framework of power sector reforms and liberalisation of energy markets, private investments have been very limited in the power sector. Indeed, under the current conditions, this activity

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<sup>1</sup> Intra-ACP Strategy and Programme for the 10<sup>th</sup> EDF

<sup>2</sup> Idem

doesn't correspond to the criteria of risk-profitability of both companies and financial markets. If it is highly desirable in order to extend access to modern energy services that the private sector be fully involved in the energy sector, it is essential to establish beforehand a political, institutional, legal and regulatory framework in which it could develop its activity.

Beside the private sector which brings investments and know-how, the public authorities will always play a crucial role in order to ensure the social fairness inside their country, in particular for poor regions and populations often neglected by the private sector. They are also called to improve technical and financial performance of energy utilities. The role of States is fundamental to better share and use the income generated by energetic resources exploitation, for oil in particular. Initiatives as EITI (international Extractive Industries Transparency Initiative) are devoted to improve this aspect of governance.

As energy is transversal and has a great impact on poverty but is still under-financed, it is also necessary to take the energy sector into consideration in the poverty reduction strategic papers (PRSPs).

The EU also deals with the integration of energy markets at a regional level. In close collaboration with the national policies of territorial development, this integration will allow economy of scale, a higher regional solidarity and a safer energy, more competitive and more respectful of the environment.

## **2. Issues to be addressed / soft barriers to increasing access to energy services:**

### *- Inadequate institutional and regulatory schemes:*

The dominant institutional model is frequently based on a territorial segmentation between the national utility (urban areas) and a rural electrification agency or fund, ruled by sometimes different regulation (technical standards, tariffs, ...). Experience shows that the organisational and regulatory setups for these models are often inadequate and incomplete and are therefore an obstacle for the service extension.

They generally do not offer the stability and predictability which are required for private sector investments. They could also lack the necessary financing schemes allowing for increased investments on access, based e.g. on cross-subsidies between urban and rural areas and on public guarantees for loans.

Critically important as well, the bio-mass sector concerns a major part of the population but it receives a low priority and a limited attention at a policy level. As a consequence, the sector is not regulated, not organized between the high number of intermediaries and actors (producers, dealers, transporters, consumers...) and remains strongly an informal sector. There is a need for legislative frameworks and regulations that would promote the sustainable management of the resources, and the efficiency of the whole sector

### *- Weak planning and organisational capacity of the public authorities:*

An increasing number of developing countries have now set ambitious political objectives for access to sustainable energy on the medium to long term. However, the credibility of these objectives is hampered by the lack of adequate planning, concrete strategies and quantified programmes. Experience shows that available planning tools are weak as regards the most adapted technological options and the prioritisation of investments to areas with high development potential and locally available renewable resources.

### *- Low performing national utilities with reduced investment capacity:*

Their financial fragility is an obstacle to the extension of the service provision. In addition, the skills of the national electricity companies are often restricted to electrification through grid extension and do not contemplate other technical options.

- *Restricted number and low capacity of private local actors:*

The development of electricity service and the potential for renewables including biomass require local actors' mobilisation for investment, equipment supply as well as technical and commercial exploitation. Current capacities and skills are not sufficient yet and should be developed in order to meet the needs.

- *Low capacity of local authorities:*

Local authorities are not prepared to play the role of locally incentivising and supporting the interventions required to extend access to energy services for the population.

### **3. A common issue at stakeholders' level: the need for capacity development**

The needs for capacity development in the energy sector in the ACP are linked to:

- Different levels: institutional (governance), organisations (performance) and individuals (competences);
- And different functions: policy, strategy, planning, service delivery (technical aspects) and service management

The needs are diverse, depending on the actors and the areas involved:

- Support to public policies of the Ministries in charge, the local authorities, the regulatory bodies and the rural electrification agencies, notably:
  - (i) *Institutional approaches*: new institutional and regulatory approaches have to be formulated, both at national and regional level, in order to develop the potential for decentralised and for renewable energies, for a sustainable management of the biomass energy resource and for energy efficiency. This is even more if one wants to attract new investors in the energy sector.
  - (ii) *Tariff setting*: their reliability and predictability are crucial for building trust within the sector
  - (iii) *Investment planning*: improved planning tools should allow prioritising investment based on local potential and resources.
- Support to national utilities, to achieve improved technical, managerial and commercial performance, to increase their investment capacity and to secure private investment.
- Support to the emergence of new operators and investors, who will ensure the provision of energy services outside the national concessions, including decentralised energy generation, renewable energy exploitation and energy efficiency programmes.
- Development of local technical skills, which are necessary for the practical setting up, exploitation and maintenance of new facilities and for the development of a local sub-contractors' fabric. This is important in terms of cost, impact and ownership, particularly for large-scale electrification programmes. Development of technical skills at the local level is also important for developing bio-mass technologies and for increasing their efficiency.

In addition, communication and sensitisation among decision makers, investors and consumers can play a prominent role. Indeed, many changes required in the energy area are

based on changes in behaviour regarding investment and consumption across all sectors of the economy. In the same perspective, one should promote education to the environmental sustainability of development, even if the benefits of this only come in the medium to long term.

#### **4. Possible orientations for action**

##### **At the institutional level - Energy policies, legislation and market conditions for enabling poverty alleviation in developing countries**

EF should contribute to strengthening the existing local, national and regional frameworks in the fields of energy policy and regulations to create favourable market conditions for the provision of energy services that can be used to alleviate poverty in rural, urban and peri-urban areas of developing countries. The results of such actions should make it more attractive and easier for local actors, including the private sector, to mobilise investments in the provision of sustainable energy services for health, education, housing, and wealth creating activities for the energy poor, for example to provide sustainable power for lighting, communications, water pumping, and wealth creating machinery, as well as sustainable heat for cooking, and the heating and cooling of buildings. The target areas to be dealt with under this orientation are a.g.:

- The energy policy chain, from development to promotion and implementation
- Pro-poor energy regulations, addressing sustainability, targets, and decentralised generation
- Energy planning for urban, peri-urban and rural areas
- Financing, investments and support schemes for energy sector programmes and projects, with particular emphasis on SMEs
- Promoting best practice in energy services to meet the needs of the poor

Objectives could be achieved through institutional partnerships, including decentralised cooperation, twinnings between similar institutions, technical assistance,...

##### **At the technical level - Strengthening local energy expertise in developing countries**

The objective of this Key Action is to promote and support initiatives in developing countries, which will help to build a critical mass of human capital with up to date knowledge and expertise in energy policy making, energy regulations, energy planning and project financing, as well as in the latest technologies and best practices available for improving the efficiency of energy use, and for increasing the use of renewable energies. Priority will be given to those initiatives which are focused on tackling the poverty agenda through the provision of sustainable energy services for lighting, communications, water pumping, education, health, and wealth creating activities. Such expertise will be needed for many years to come in the public sector for the development and management of energy policies, regulations and programmes as well as in the private sector for the local development, deployment, management and maintenance of energy technologies and services. Possible target areas to be dealt with under this orientation are:

- Training and networking for energy policy makers, regulators, and planners
- Training and networking for energy professionals
- Strengthening existing Energy Centres, Agencies and Industry Associations