Financing Energy Access for the Poor
OUTLINE

- Introduction to OFID
- The Financing Gap
- Main Challenges
- Response (OFID’s experience)
- Conclusion
Introduction to OFID

To foster Sustainable Development in non-OPEC developing countries and particularly lower income countries - ‘Uniting against poverty’-

Mandate

<table>
<thead>
<tr>
<th>Operation</th>
<th>Sector</th>
<th>Region</th>
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<tbody>
<tr>
<td>Public Sector 78%</td>
<td>Agriculture 15%</td>
<td>Africa 50%</td>
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<td>Grants 4%</td>
<td>Energy &amp; Transportation 50%</td>
<td>Asia 31%</td>
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<tr>
<td>Private Sector 11%</td>
<td>Industry, Telecomm 2%</td>
<td>Latin America &amp; RoW 19%</td>
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<tr>
<td>Trade Finance 7%</td>
<td>Health 5%</td>
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Cumulative operations: US$ 13.4 Billion (Nov. 2011)

Medium to long-term plans include substantial scaling up of OFID assistance
• In 2009, US$ 9.1 Billion was spent to finance access to modern Energy world wide
• With no major changes, the number is expected to average US$ 14 billion annually between 2010 and 2030

• In order to reach universal access, the investment needs to average US$ 48 billion annually
• A gap of US$ 34 billion annually is expected, if no changes are witnessed
Main Challenges

- Aid fragmentation
- Diversifying the financing mix
- Improve project identification
- Sustainable business models
- Increase the financing of energy
Aid Fragmentation

- Aid fragmentation is detrimental to effectiveness (aid is less than the sum of its parts)
- Better DFI coordination: harmonization, risk mitigation, project identification and finance, synergy between technology and finance

In recent years, OFID signed several MOUs with the World Bank, IFAD, Asian Development Bank, CAF and BADEA

While OFID has its own “energy for the Poor” initiative, it is participating in other initiatives, such as the UN Secretary General’s “sustainable Energy for All”

OFID is currently working with the coordination Group and the OECD/DAC to prepare coordinated participation at Busan, Korea for the 4th High Level Forum on Aid Effectiveness.
Diversifying the financing mix

- Wide spectrum of projects: from cooking stoves to power plants
- Each type of project needs a specific type of financing
- Diversified financing mix: Local, international, from grants to Market based instrument with appropriate risk sharing

Markala Sugar (Mali):
- Agriculture: Public Sector loan (increase of crops).
- Industrial: Private Sector Loan (ethanol plant)
Response (OFID’s experience)

Improve Project Identification

- Lack of substantial pipeline of good projects to reach the poor
- Countries: further prioritize energy access, in national development strategies, and Increase "absorptive capacity" through appropriate reforms
- DFIs: More feasibility studies to be carried out with grants.

Created an Energy Account with UNDP, that offers grants for energy research, pilot projects, and feasibility studies.

Recently extended A grant from that account to conduct 4 feasibility studies for energy projects in the Caribbean.
Required energy projects to achieve universal access:
- 49% grid extension
- 36% mini grids
- 15% stand alone off-grid

Market–based approach often ineffective for the poorest

Prerequisite: strengthening domestic financial institutions, developing capacity building

Created the Energy Poverty Grant Account in 2011. The Account is replenished annually.

Supports community, local NGOs, and Social enterprises in developing sustainable energy projects.
Response (OFID’s experience)

Increase the financing of energy

- Energy aid represent a small fraction of the total ODA
- Focus was not on energy, as it is not a stand alone MDG
- As energy is a key enabler to all the MDGs, governments and development institutions should increase the financing available for energy projects.

The percentage of energy operations increased from 19% in 2007 to 27% in 2010.

Approved more than 891 Million US Dollars for energy Projects in 29 Countries Since 2007.

By adding the co-financing share of other development institutions, the impact on the ground exceeds US$ 9.3 billion.
The Financing gap for energy projects is huge

Development institutions, investors, and governments should find practical solutions to these challenges

The five challenges outlined are not the only one

Less talk, more action