



***International Energy Forum***  
***OFID's role in Development***  
***&***  
***Energy Access***

**Mr. Suleiman J. Al-Herbish**  
**Director General, OFID**

**Riyadh**  
**May 22, 2010**



# OFID: Mandate & Support

## History:

Conceived by the First OPEC Summit, held in Algiers (March 1975).

The OPEC Fund for International Development, OFID , was established in 1976.

## OFID Mandate:

- Provide development assistance to particularly **poorer, lower income** countries
- Promote cooperation between **OPEC member states and other developing countries** thereby strengthening **South-South** dialogue and mutual assistance

## Continuous support from Member Countries:

- Caracas Declaration of the Second OPEC Summit (September 2000)  
'...OPEC will continue its historic record of taking issues of the Developing Countries into full consideration, *inter alia*, through their individual aid programmes as well as through the **OPEC Fund for International Development**...
- Riyadh Declaration of the Third OPEC summit (November 2007)  
'Reaffirms OPEC's **continued commitment to development assistance through OFID and its Member Countries' bilateral, regional and multilateral development assistance channels**'.



# Poverty

## People living on less than US\$ 1/day (2005)

	% of total Population	In Millions
Sub-Saharan Africa	<b>50</b>	381
Eastern and South-Eastern Asia	18	339
Southern Asia	39	<b>575</b>
Latin America and the Caribbean	8	44
Rest of the World	3	61
<b>TOTAL WORLD</b>	<b>22</b>	<b>1400</b>

Source: UN MDG Report, 2008

- Greater number of poor people in Asia, but
- Highest poverty rates in Sub-Saharan Africa

**OPEC Heads of States at Caracas (2000):**

***"...urges the industrialised countries to recognise that the biggest environmental tragedy facing the globe is human poverty"***



# Member Countries' support to the developing world



- **Sister Organizations**: Abu Dhabi Fund, AFESD, BADEA, IsDB, Kuwait Fund, Saudi Fund, BANDES
- **World Bank Group**: IBRD, IDA, IFC
- **United Nations Agencies**: FAO, IFAD, UNDP, UNESCO, UNESCWA, UNHCR, UNICEF, UNIDO, UNOPS, UNRWA, WFP, WHO
- **Regional International Financial Institutions**: AfDB, AsDB, EBRD, EIB, IADB, CABI, CDB, BOAD, EADB
- **Bilateral & Multilateral DFIs**: CAF, CDC, CFC, FMO, KfW, Nordic Group, PROPARCO
- **International & Regional NGOs**





# OFID Financial Instruments

## ➤ Address **general needs in Public & Private Sectors**

- Highly Concessional Loans & Blend Loans
- Project & Corporate Market-based Loans & Lines of Credit
- Equity and other financial solutions

## ➤ Respond to **particular needs**

- Islamic Financing, Trade Financing

## ➤ Deal with **humanitarian needs & capacity building**

- Grants & budget-financed research

## ➤ **OFID assistance is:**

**Apolitical:** serve people not regimes

**Untied and unconditional:** encourage competition and good project governance

**Ownership:** country in the driving seat

**Flexibility:** co-financing, country priorities

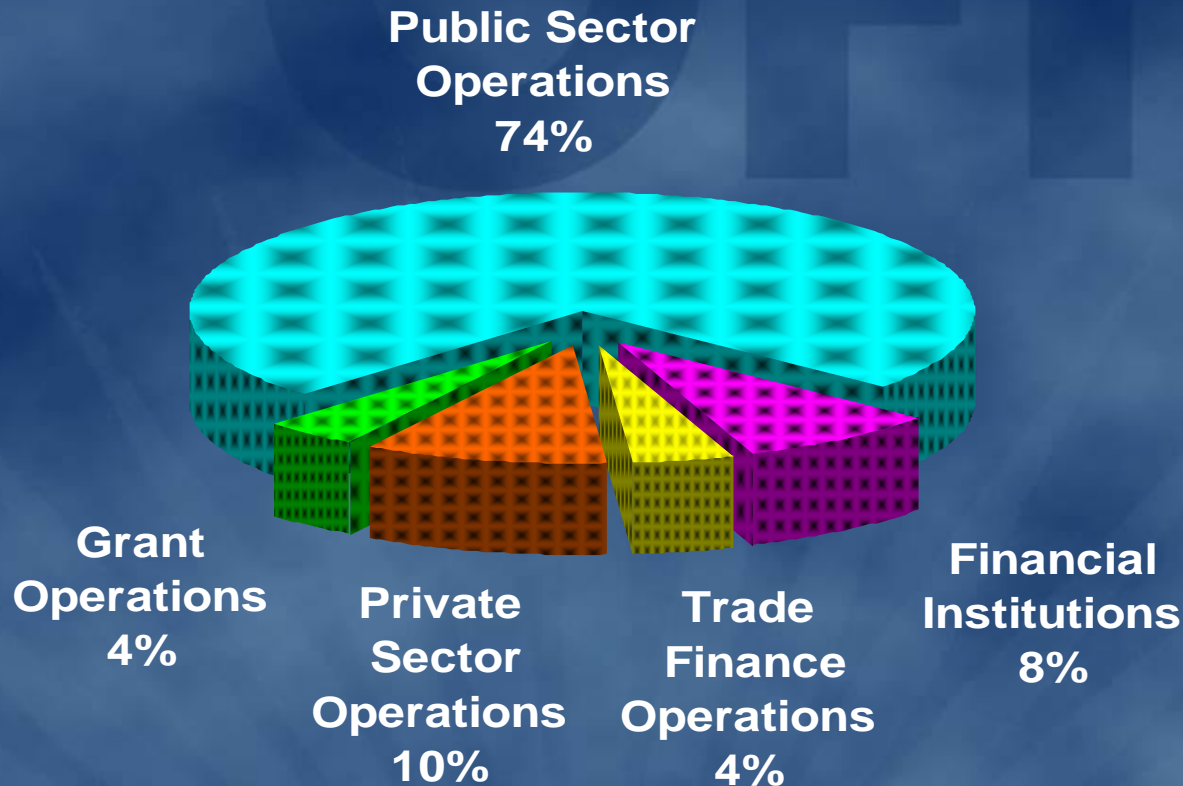
**Responsive to needs:** wide range of assistance

**on the ground**



## **OFID has diversified activities**

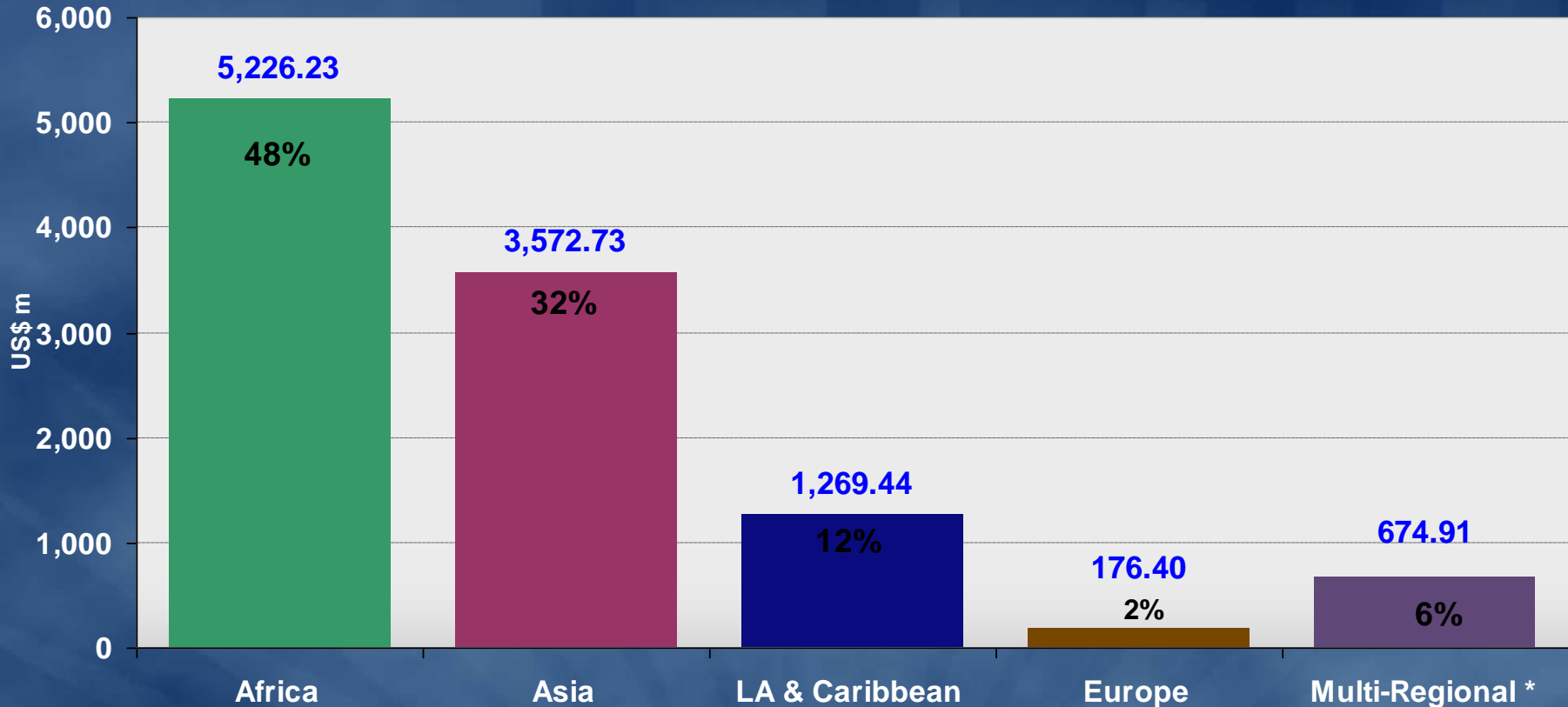
**Cumulative: US\$ 11.9 billion (May 2010)**



**OFID medium to long-term plans include substantial increase of activities & commitments particularly for Trade Finance Operations and energy related projects**



# OFID operations in 125 Countries

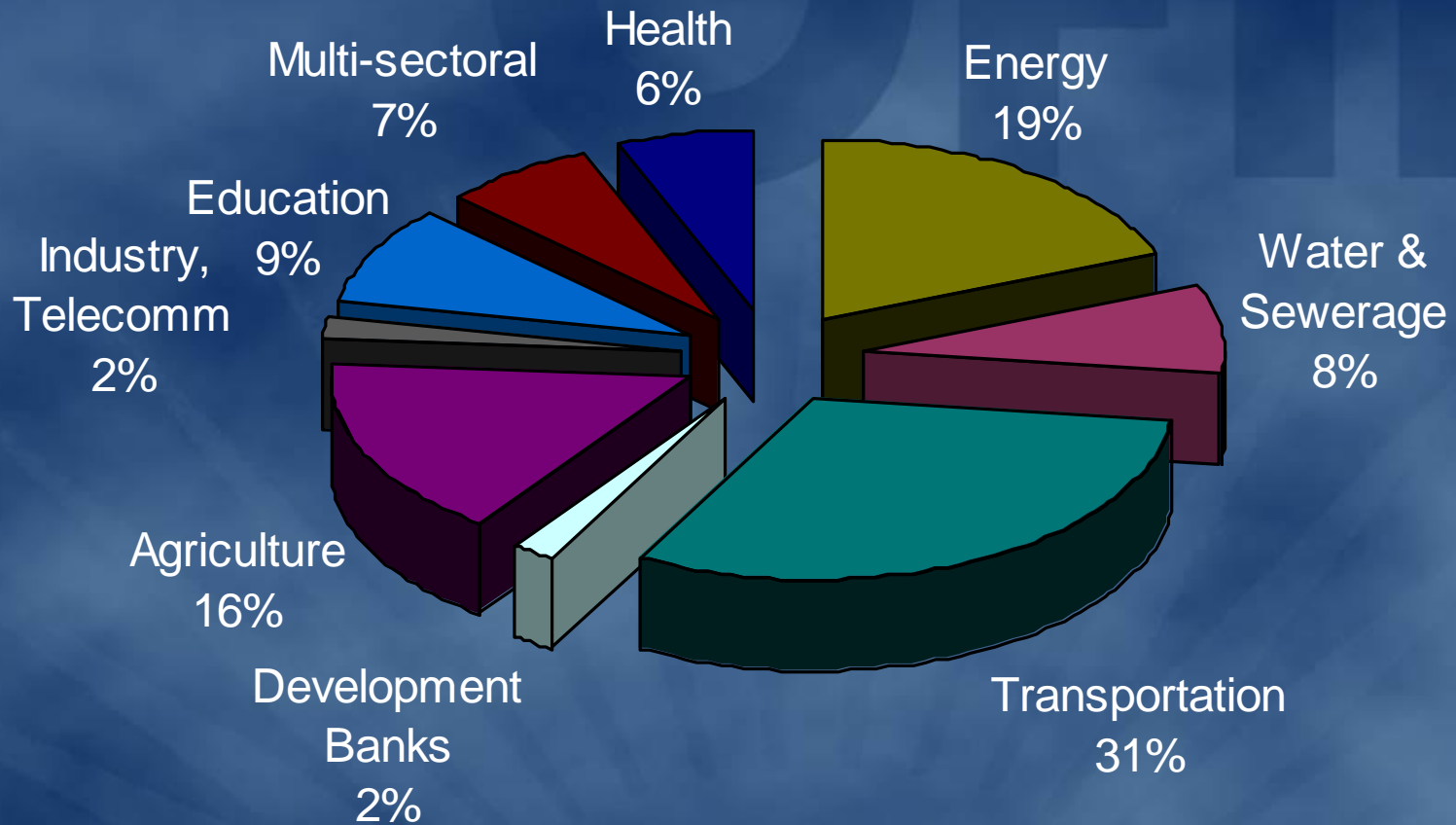


**With its beneficiaries, OFID has developed relations based on partnership**

\* Total does not include contributions to IFAD & IMF (US\$ 972 m)



# OFID is operating in all Sectors



## Total Commitments -

**Public Sector project loans: US\$ 7.3 bn for 1,264 operations  
(May 2010)**





# The Private Sector Facility (PSF)

## Rationale: Why the Private Sector?

- Responding to genuine requests from partner Countries;
- Private Sector viewed as engine of economic growth;
- Complementary to OFID's existing activities;
- Privatization of many state enterprises.

## Country Eligibility

- In principle, all low and middle income countries are eligible for private sector financing;
- AEPIs\* in force a prerequisite for operation (65 signed of which 60 in force)

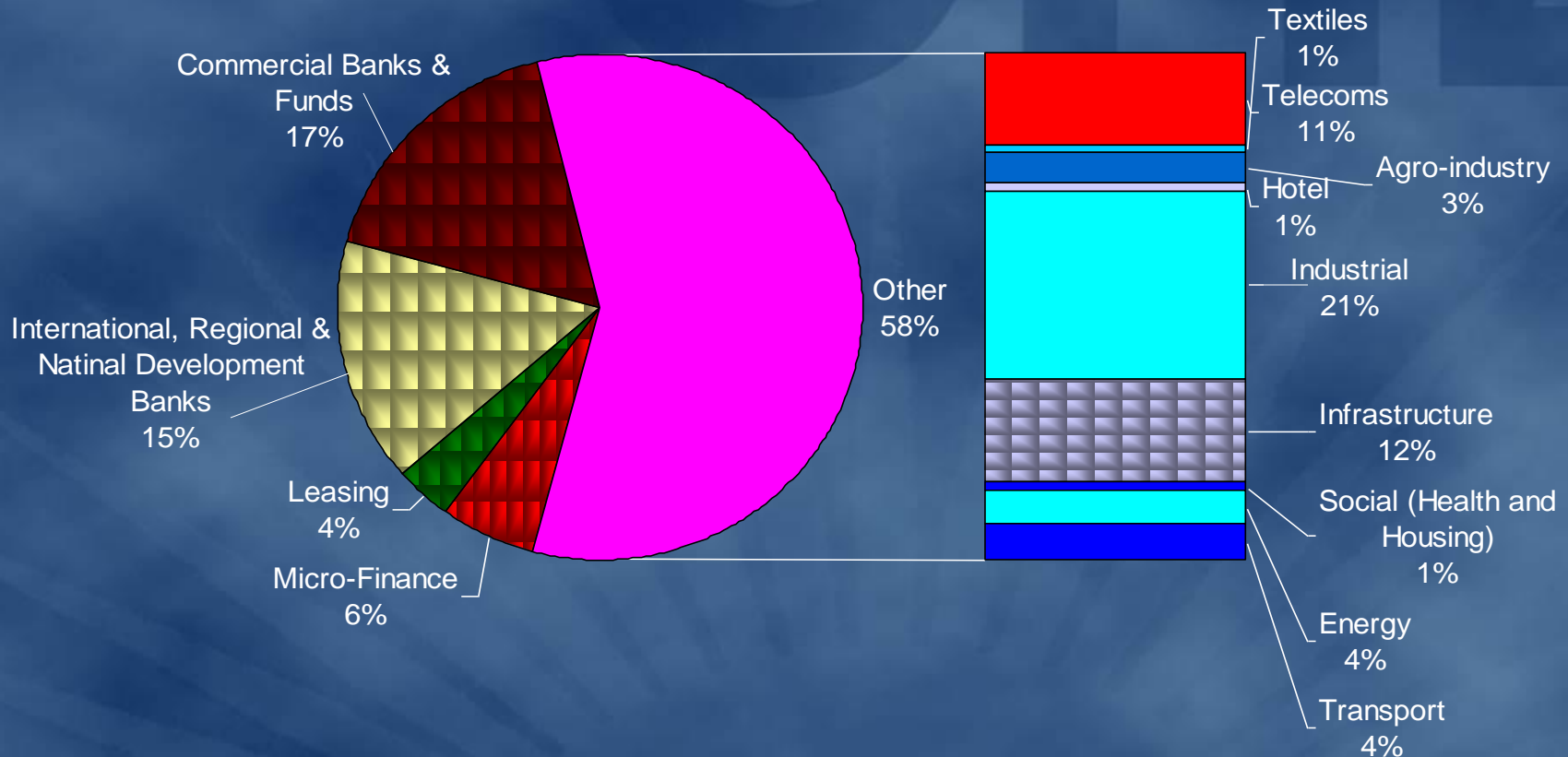
## Project Eligibility

- Borrowing entity incorporated in a country with AEPI,
- Project must be financially, economically, technically, and environmentally viable

\* ***Agreement for Encouragement and Protection of Investment***



# PSF Portfolio



**Total Approvals (April 2010): 103 projects in 36 countries of \$ 798m**



# Trade Finance Facility (TFF): Rationale & Products

Our Trade Finance Facility (TFF) was established in 2006, with the **rationale** to:

- Broaden tools to complement the mission of OFID
- provide similar products offered by other development finance institutions

## Products:

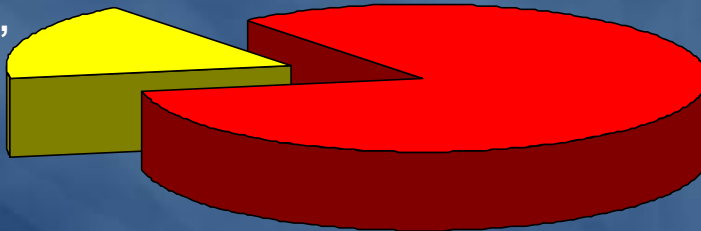
- **Revolving Lines of Credit** to financial intermediaries
- **Direct loans** parastatals, public agencies, private corporations
- **Guarantees and Risk Sharing schemes:**
  - 1) International Commercial Banks
  - 2) Development Finance Institutions
- **Sharia Islamic banking instruments**



# TFF Portfolio

## Instruments

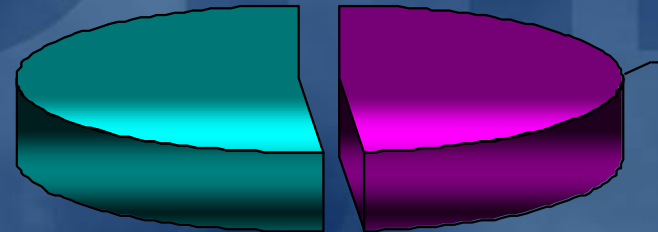
Lines of  
Credit,  
US\$121m,  
17%



Loans  
US\$ 582 m,  
83%

## Beneficiaries

Non-  
Sovereign  
US\$ 362  
million,  
51%



Sovereign  
US\$ 341  
million,  
49%

**Total Approvals: Loans & Lines of Credit (April 2010):  
\$ 703 million for 37 Operations**





# Trade Finance: Unfunded Operations (Guarantees)

	<b>Date Effective</b>	<b>Total Scheme** USD M</b>	<b>OFID Share USD M</b>	<b>Outstanding April 30, 2010 USD M</b>
<b>EBRD</b>	<b>Dec 2007</b>	<b>42</b>	<b>14</b>	<b>6</b>
<b>Standard Chartered Bank</b>	<b>Dec 2009</b>	<b>500</b>	<b>250</b>	<b>94</b>
<b>Standard Bank</b>	<b>Apr 2010</b>	<b>300</b>	<b>150</b>	<b>1</b>
<b>UBAF</b>	<b>May 2010*</b>	<b>200</b>	<b>100</b>	<b>-</b>
<b>Standard Bank (Agro)</b>	<b>-</b>	<b>100</b>	<b>50</b>	<b>-</b>
<b>Export Trading Group</b>	<b>-</b>	<b>120</b>	<b>20</b>	<b>-</b>

• **UBAF: Change of Management delayed effectiveness**

**\*\* Trade Scheme volumes planned to be revolved 4 times per year. No of Countries targeted about 45**



# Interest Rates

	<b>PUBLIC SECTOR (under current program)</b>				
<b>Facility</b>	<b>Low Income Country</b>  <b>GNI per capita less than \$1,100</b>	<b>Middle Income Country</b>  <b>GNI per capita &gt; \$1, 100 &lt; \$ 3,500</b>	<b>Blend Facility</b>  <b>Mostly Middle Income Countries</b>	<b>Private Sector Facility</b>  <b>Middle / Low income Country Private Beneficiaries</b>	<b>Trade Fin Facility</b>  <b>Middle / Low income Country Private/ public Beneficiaries</b>
<b>Interest Rate</b>	<b>Fixed Rate</b> <b>Varies with GNI/capita</b>  <b>E.g. &lt; \$400 = 1% Interest + 1% service charge</b>  <b>Maximum 1.75% + 1% service charge</b>	<b>Fixed Rate</b> <b>Varies with GNI/capita</b>  <b>Fixed 4.1% to 4.5%</b>	<b>Floating Rate</b> <b>Based on 6M LIBOR</b> <b>Or</b> <b>Fixed Rate (about 5%)</b>	<b>Floating Rate</b>  <b>Based on 6M LIBOR</b>  <b>(or fixed rate equivalent by reference to swap rates)</b>	<b>Floating Rate</b>  <b>Based on 6M LIBOR</b>
<b>Margin</b>	<b>N/A</b>	<b>N/A</b>	<b>40 - 60 Basis points</b>	<b>Based on risk</b> <b>100 - 500 bps</b>	<b>Based on risk</b> <b>100 – 300 bps</b>



# Highly Indebted Poor Countries (HIPC)

**OFID actively participated in the Initiative since the early days (1996).**

## Exposure

- OFID is one of the few institutions involved in **all** 40 HIPC Countries

## Debt Relief

- Cost to OFID over US\$300 million

## Delivery Instruments

- Refinancing through concessional loans (50%)
- Restructuring existing debt (50%)

### AFRICA

Benin  
Burkina Faso  
Burundi  
Cameroon  
CAR  
Chad  
Congo DR  
Congo Rep  
Cote d'Ivoire  
Comoros  
Eritrea  
Ethiopia  
G. Bissau  
Gambia  
Ghana  
Guinea  
Liberia  
Madagascar  
Malawi  
Mali  
Mauritania  
Mozambique

Niger  
Rwanda  
Sao Tome  
Senegal  
Sierra Leone  
Somalia  
Sudan  
Tanzania  
Togo  
Uganda  
Zambia

### ASIA

Afghanistan  
Kyrgyz Rep.

### LAC\*

Bolivia  
Guyana  
Haiti  
Honduras  
Nicaragua

\* Latin America & the Caribbean



# Grant Operations

## Regular Grant Operations:

- Technical Assistance
- Research & Similar Intellectual Activities
- Emergency Aid

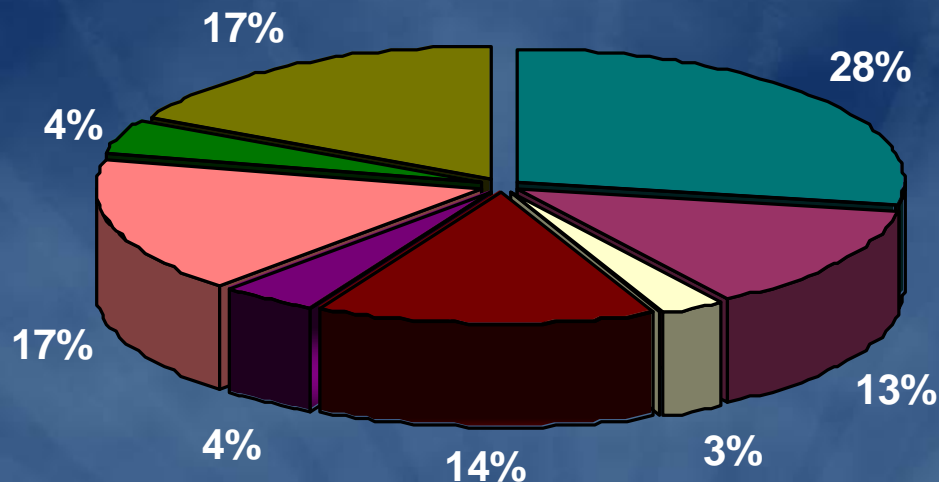
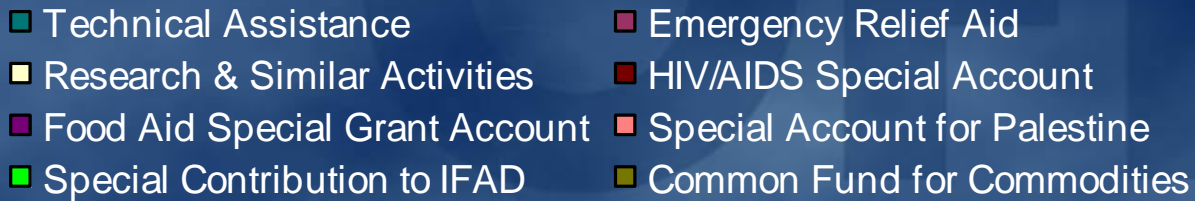
## Special Accounts:

- HIV/AIDs
- Multi-sectoral assistance to Palestine
- Response to Food Crisis in Africa
- Common Fund for Commodities





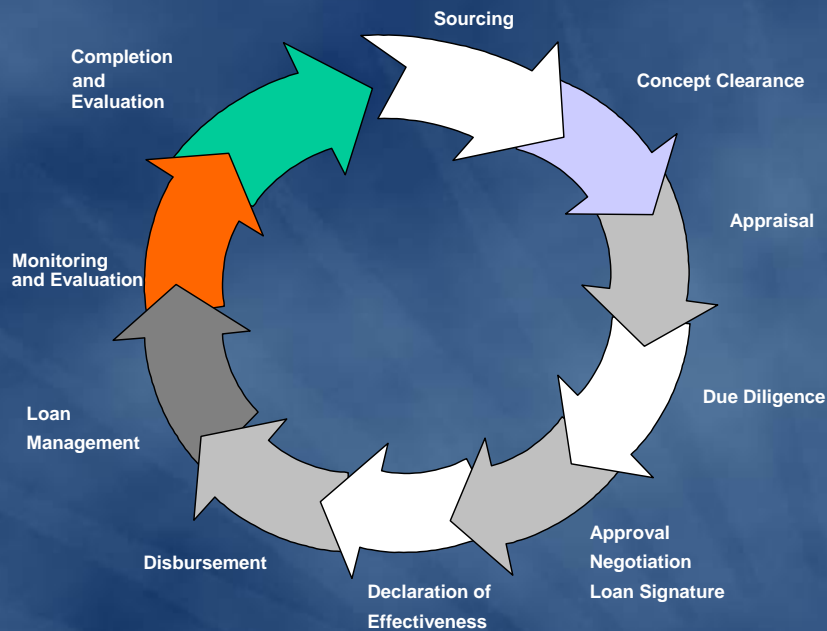
# Grant Operations Portfolio



**Total Commitments (April 2010): US\$ 483 million for 1,205 grant operations**



# Planning on corporate level & following the Project Cycle for each operation



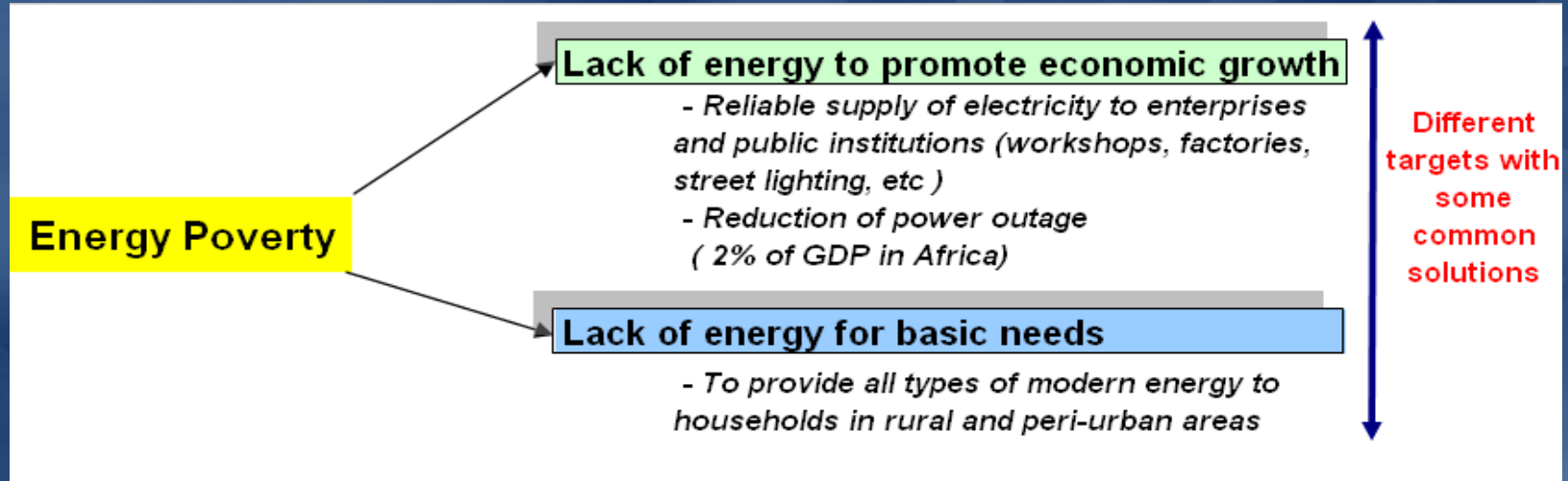


# Energy Poverty



# Energy Poverty Characteristics

## ■ What is Energy Poverty?



■ **2.5 billion people** rely on traditional biomass (wood, agricultural residues and dung) for cooking and heating. Indoor smoke from biomass causes **1.6 million deaths** per year, a death toll greater than that caused by malaria.

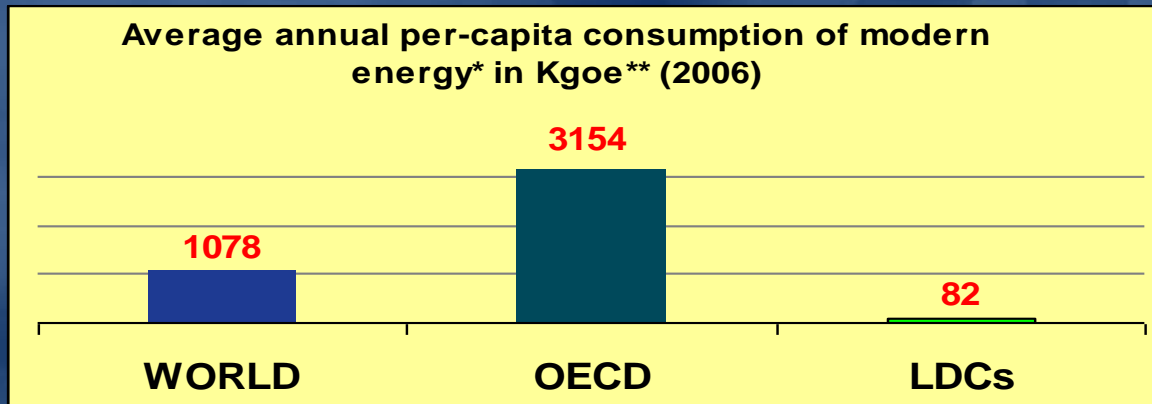
## ■ Traditional biomass holds back Sustainable Development:

- **Time consuming** to gather wood fuel , a burden for women and children;
- **Pressure on the environment:** Deforestation;
- Cannot work irrigation pumps **to help agriculture**
- **Mechanical energy** is needed to induce development



# Energy Poverty Characteristics

## ■ Huge disparities in modern energy consumption



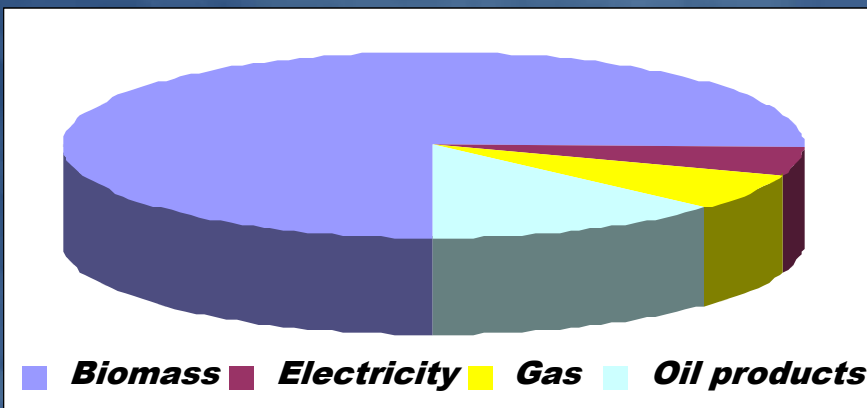
\* includes final consumption of all energy except biomass and waste

\*\* Kgoe: kilograms of oil equivalent

Source: UNDP and IEA. IEA has data for 16 LDCs accounting for 70% of total LDC population

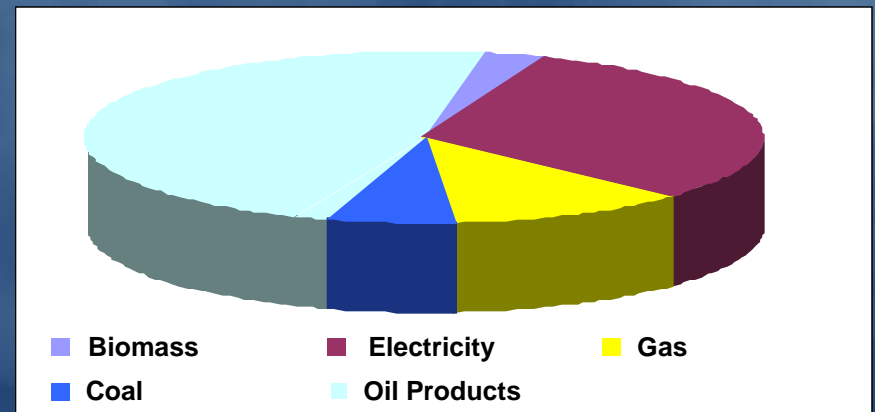
## Poor Populations

(More than 75% living on less than US\$2/day)



## More developed populations

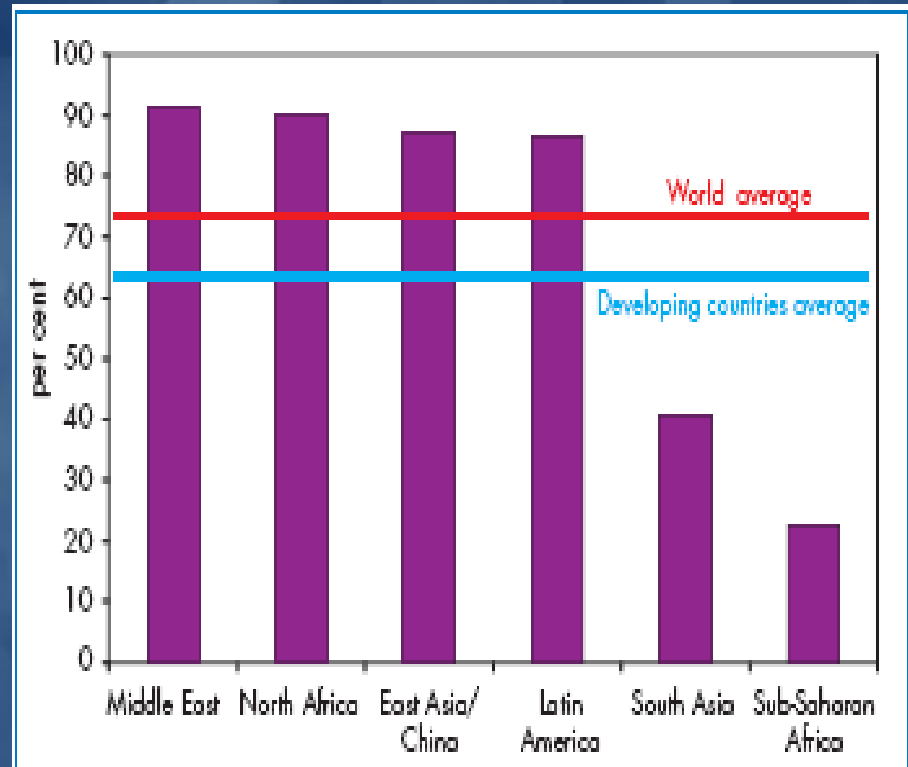
(Less than 5% living on less than US\$2/day)



# Energy Poverty Characteristics

**Electricity is vital to development as it enhances income generating activities.**

- **1.5 billion** people still lack access to electricity
- **Africa** has very low access to electricity:
  - More than 587 million people have no access
- In Sub-Saharan Africa:
  - **8%** of rural population have access (only 2% in Ethiopia and Tanzania)
  - Total generating capacity (30 GW) is **less than Norway**, whilst the population is 150 times as large.



Source: IEA analysis.

**Percentage of Population with Access to Electricity by Region**



# Energy underpins all MDGs

OPEC Heads of State at Riyadh (2007):

*“Energy is essential for poverty eradication, sustainable development and the achievement of the Millennium Development Goals”*

Millennium Development Goals		Contribution of Modern Energy Services
1	Eradicate extreme poverty and hunger	Boosts growth of employment, enterprise, agriculture
2	Achieve universal primary education	Lighting extends study time, access to media, IT
3	Promote gender equality and empower women	Frees time from collection of firewood, waste
4	Reduce child mortality	Cuts indoor air pollution, respiratory disease
5	Improve maternal health	Enables better medical facilities, clinics
6	Combat HIV/AIDS, malaria and other diseases	Permits efficient refrigeration, storage of vaccines
7	Ensure environmental sustainability	Less deforestation, efficient irrigation and land use
8	Develop a global partnership for development	Energy partnerships bring technology, capacity
9	<b>Eradicate Energy Poverty</b>	<b>OFID proposal</b>

**The 12 IEF Ministerial recognised OFID proposal (MDG 9) in March 2010**



# **Selected Resolutions of the Riyadh Declaration**

## ***Energy for Sustainable Development***

- '1. Emphasize that eradicating poverty should be the first and overriding global priority guiding local, regional and international efforts.'**
  
- '6. Continue to align the programmes of our aid institutions, including those of the OPEC Fund for International Development, with the objective of achieving sustainable development and the eradication of energy poverty in the developing countries, and study ways and means of enhancing this endeavor, in association with the energy industry and other financial institutions.'**





# Challenges of energy poverty

## Availability, Accessibility, Affordability:

The challenge is to make energy **Available, Accessible, and Affordable** to fast-growing populations in poor countries.

## Population increase:

Population in billion			
	2009	2050	Growth
World	6.8	9.1	~33%
Africa	1.01	2	~100%
LDCs	0.84	1.7	~100%

Source: UN Report WPP-2008

## Climate change:

The need to reduce CO<sub>2</sub> emissions should not be used as an argument against providing energy to the poor.

Recent studies (IEA) are showing that even if all energy poor people have access to modern energy, global carbon dioxide emissions will only rise by less than two per cent.



# Barriers to Access (1/2)

The OFID workshop on *Energy Poverty in Africa* (Abuja, June 2008) has confirmed OFID vision and has identified **key barriers** to improving energy access:

## 1- Cost and technology:

- High up-front investment costs, ranging from US\$ 15 to 35 billion annually for a medium to long-term plan for Africa alone;
- No or inadequate transfer of appropriate technology.

## 2 - Policies:

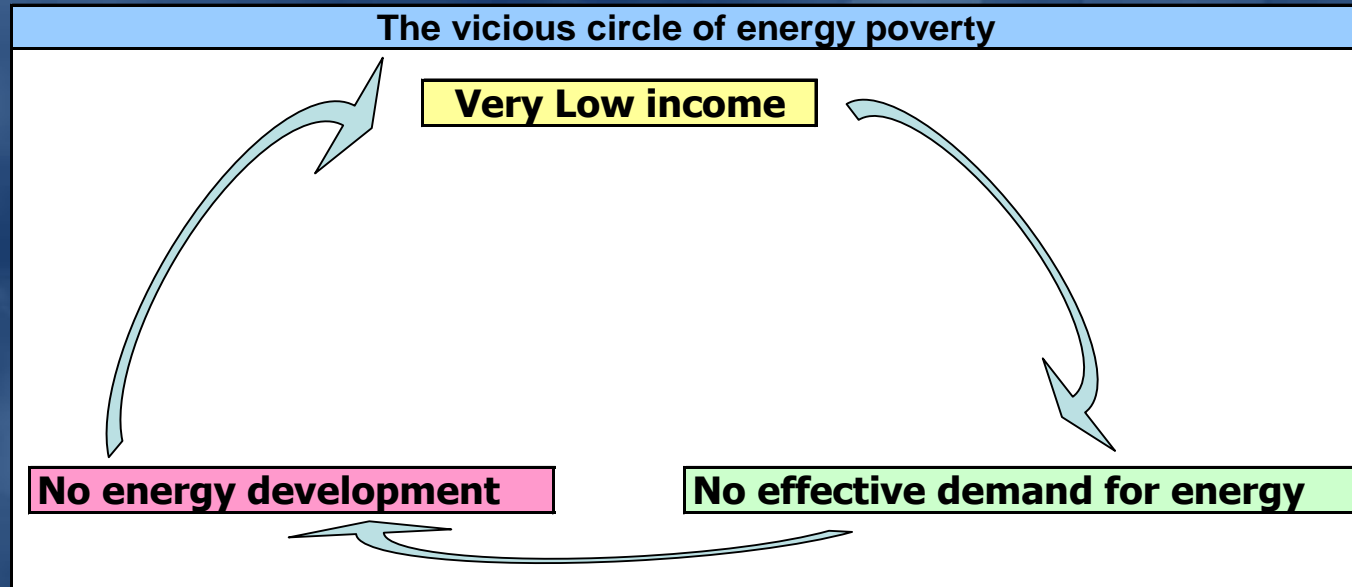
Weak enabling environment : low budget, poor planning

- Lack of transparent national policies able to attract investments
- Lack of direct involvement of local communities in rural electrification
- Inadequate regulatory frameworks to foster regional cooperation
- Utilities in poor financial health

# Barriers to Access (2/2)

## 3 - Poverty:

Low level of per capita income which reduces ability to pay and hence Market-Based approach cannot finance investment needs



To break this vicious cycle, it will be crucial to

- Enable poor people to **increase their income through financial services** (e.g. micro finance);
- Implementing sustainable **pro-poor policies**: targeted subsidies.



# Solutions to Energy Poverty (1/2)

## Financing: Energy for the Poor Initiative

Launched by King Abdullah of Saudi Arabia in June 2008, the **Energy for the Poor Initiative** will encourage development funding of energy projects.

- The World Bank will mobilize the donor community.
- The Initiative will **facilitate investment in modern energy services**:
  - Develop innovative financing mechanisms;
  - Support private sector partnerships;
  - Attract wider financial support.

It is therefore crucial to support **new momentum** gained in fighting energy poverty since the launch of the **Energy for the Poor Initiative**, which has recently been recognized by various important international fora:

- Energy Ministers of the G8, L' Aquila, Italy (May 2009);
- G20 at their Summit in Pittsburgh, U.S. (September 2009);
- IEF at their 12<sup>th</sup> Ministerial Council, Cancun, Mexico (March 2010).





# Solutions to energy poverty (2/2)

## Few examples on the ground

**Since November 2007, OFID alone has committed close to US\$ 450 million, in energy poverty alleviation covering 22 operations in 17 countries.**

**Energy poverty alleviation projects will be further emphasized in OFID programmes:**

- **In 2007:** OFID approved a loan of US\$ 4 million to **Gambia** for 29 km of street lighting in the capital Banjul.
- **In 2008:** OFID approved a loan of US\$14 million to **Armenia** to built a gas pipeline network of 240 km to supply 17,000 households (44,6000 inh.) with modern energy.
- **In June 2009:** OFID approved close to US\$ 50 million to participate in **three important projects with the World Bank:**
  - **Mozambique** to improve electrical access in rural areas where the electricity rate is only 6%.
  - **Pakistan** with the construction of a 970 MW power plant
  - **Rwanda** to help 210,000 households achieve access to reliable and cost-effective electricity.



# Conclusion

- Overall, OFID will continue - within the general framework of Sustainable Development - to **improve the economic and social conditions** of thousands of people in poor countries around the world.
- Regarding the **alleviation of Energy Poverty**, OFID will continue to:
  - Participate in the **full implementation** of the Energy for the Poor Initiative;
  - Raise the flag of '*fighting energy poverty*' in the international development debate;
  - Put a higher priority to actions aimed at **alleviating energy poverty** within its future programmes;
  - Develop and support practical initiatives that really make the **difference on the ground**.

**With proper international support, OFID envisions that energy poverty will be eradicated in the next two decades. This is also in line with the IEA envisioned scenario of universal energy access by 2030.**



**Thank you for your attention.**



# **The OPEC Fund for International Development (OFID)**

**Over 30 years of Partnership and Cooperation  
1976 - 2010**



**The OPEC Fund for International Development (OFID)**

**Parkring 8, A-1010 Vienna, Austria**

**P.O. Box 995, A-1011 Vienna, Austria**

**Telephone: (+43-1) 515 64-0, Fax: (+43-1) 513 92 38**

**Internet: [www.ofid.org](http://www.ofid.org)**

**Email: [info@ofid.org](mailto:info@ofid.org)**





Back up slides



# History: the Producer-Consumer dialogue

## Chronology of IEF Ministerial Meetings

July 1991. Paris, France	First Producer-Consumer Dialog meeting. Initiative of France and Venezuela
1992. Norway	2nd IEF Ministerial
1993. Spain	3rd IEF Ministerial
1994. Venezuela	4th IEF Ministerial
1996. India	5th IEF Ministerial
1998. South Africa	6th IEF Ministerial
<b>2000. Riyadh, Saudi Arabia</b>	<b>7th IEF Ministerial</b> <b>Proposal by Saudi Arabia to establish a permanent Secretariat</b>
<b>2002. Osaka, Japan</b>	<b>8th IEF Ministerial.</b> <b>Establishment of the IEF Secretariat on September 23, 2002</b>
2004. Amsterdam, Netherlands	9th IEF Ministerial
2006. Doha, Qatar	10th IEF Ministerial
2008. Rome, Italy	11th IEF Ministerial
2010. Cancun, Mexico	12th IEF Ministerial



# History: a lesson from the crisis

**When an issue is given the right priority in the international agenda, successful solutions follow:**

- Banks with difficulties in the US and Europe benefited from substantial bailout plans amounting **US\$1300 billion with thriving results.**

**When an issue is receiving only lip service in the international agenda, results are deceiving:**

- In contrast, the regulation of financial and commodity markets aiming at reducing excessive speculation and high volatility received only **lip service with failing results**

**With proper international support, OFID envisions that energy poverty will be eradicated in the next two decades**

# Poverty



**OPEC Heads of States at Caracas (2000):**

*"...urges the industrialized countries to recognize that the biggest environmental tragedy facing the globe is human poverty"*





# Solutions to energy poverty

## 1- Energy to promote economic growth:

### ■ Energy mix:

- Need to **substitute** traditional biomass-based fuel
- Should be **diversified**: fossil fuels as well as renewables
- Take **cautious approach** regarding biofuels (see OFID study)

### ■ Power: production and distribution

- Both **centralized and decentralized options** are needed  
Focus on cost effective regional supply projects as well as small scale sustainable decentralized units (solar, wind)
- Support for **existing utilities**: capacity building, cost recovery, grid scale-up
- Support governments to develop and implement **policies and regulatory framework** to involve Private Sector through PPPs to develop energy SMEs
- Support governments to improve **management capacity**: planning, project management

Source: OFID workshop, June 2008

# Solutions to energy poverty

## 2- Basic Energy access by the poor:

- Generalize the use of improved cookstoves to reduce death toll from indoor smoke
- **Break the vicious the circle** of energy poverty by:
  - Enable poor people to increase their income by financial services (eg micro finance)
  - Implement sustainable pro-poor policies: targeted subsidies

Source: OFID workshop, June 2008

## 3- Need to further prioritize energy poverty issues in the international development agenda

- *'Business as usual'* is not an option.
- To support the **new momentum** gained in fighting energy poverty since the launch of the **Energy for the Poor Initiative** by King Abdullah in 2008
  - **G8: 'Combating Energy Poverty'** in G8 statement July 2009 -Aquila- Italy
  - **G20 Leaders:** 'We commit, on a voluntary basis, to funding programs ... such as ...the **Energy for the Poor Initiative**'. September 2009 Pittsburg, USA.
  - **12<sup>th</sup> IEF Ministerial:** The '**Fight against Energy poverty**' in concluding statement March 2010 Cancun, Mexico



# Energy Poverty Characteristics

**Electricity is vital to development as it enhances income generating activities**

- **1.5 billion** people still lack access to electricity
- **Africa** has very low access to electricity:
  - More than **587** million people have no access
  - In Sub-Saharan Africa:
    - **8%** of rural population have access: only **2%** in Ethiopia and Tanzania
    - Total generating capacity (30 GW) is **less than Norway** whilst the population is 150 times as large
- '*Business as usual*' approach would leave **1.3 billion people without electricity by 2030** (IEA scenario 2009):
  - It is unacceptable
  - Universal access to all human beings by 2030 should be the only scenario to contemplate .

(Data source: IEA 2009)