

Sustainable Energy Services

FOR POVERTY REDUCTION



SIDA POLICY INFO

A Sida policy offers norms, guidance and support. Sida departments and Swedish embassies are responsible for policy application and execution. Overall responsibility for Sida's policies rests with the Department for Policy and Methodology, POM. Anyone with comments is welcome to send them to the policy owner.

POLICY NAME: Sustainable Energy Services for Poverty Reduction

ISSUE DATE: 6 December 2005

POLICY OWNER: Department for Infrastructure and Economic Cooperation (INEC)

VALIDITY: This policy replaces the policy for Sida's Assistance to a Sustainable Energy Sector, issued in 1996.

This policy is valid until 6 December 2010.

SUPPORTING DOCUMENTS:

Policy Guidelines for Sida's Support to Private Sector Development

Climate and Development

Sida's Policy for Credit-Financed Development Cooperation

Promoting Gender Equality in Development Cooperation

Sida and the energy sector

Sweden's Policy for Global Development lays the foundation for Sweden's development cooperation. It states that the overall objective is to help create conditions that will enable poor people to improve their quality of life.

Sida's understanding of poverty and poverty reduction is expressed in "Perspectives on Poverty", which recognises that peace, democratic governance, economic and social development and sustainable use of the environment are all necessary for sustainable poverty reduction.

This present policy defines how Sida puts Sweden's Policy for Global Development and "Perspectives on Poverty" into practice in relation to energy sector development.

The overall objective of Sida's support to energy sector development is to assist in the development of sustainable energy systems that enable poor people to improve their lives.

Sida's support to energy sector development rests on two pillars: reform of energy institutions and development of sustainable energy systems. Sida provides grants for technical assistance and capacity development and supports investments in energy systems through grants, credits and guarantees.

Sida strives to align processes with partner countries and to provide energy support in well-coordinated consortia with other donors.

Sida works with key organisations in Sweden and elsewhere, including government agencies, NGOs, academic institutions and the private sector, which provide a valuable resource base for Sida's energy sector support. Sweden and Sida have considerable experience, knowledge and expertise in the energy sector. Examples can be drawn from electricity market reform, modern bioenergy development, district heating, sustainable hydropower, energy efficiency and synergies between the energy sector and other sectors.

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Energy's role in poverty reduction

The poor are often forced to rely on inefficient and health-damaging fuels. Such reliance aggravates poverty by requiring households to spend a disproportionate amount of money and time on securing energy and causes poor health from exposure to indoor air pollution, especially for women and children. Poverty is also aggravated by deforestation from wood-gathering in rural areas for household fuel consumption and for the production of charcoal for income generation.

Energy is required in almost all conceivable development processes. Industry, agriculture and business are engines of economic growth, and access to appropriate energy services is a prerequisite for increased productivity. Such access contributes to overall economic growth and also promotes pro-poor growth.

Modern energy is also an integral part of almost all social and public services and therefore critical for the achievement of the Millennium Development Goals. Healthcare and maternity clinics, schools and public institutions with access to modern energy services are fundamental to the fulfilment of economic and social rights and for enhancing welfare at the household level.

Effective systems for delivering energy services are thus a prerequisite for poverty reduction and for meeting basic economic and social rights. The challenge is to get sufficient energy to more users in ways that are environmentally, economically and socially sustainable and in ways that serve the interests of the poor. The widespread income and gender inequalities in access to energy, in participation in energy interventions, and in representation in the energy sector, need to be explicitly addressed.

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Reforming energy institutions

Of crucial importance to the development of a sustainable energy sector is the creation of an enabling environment consisting of laws, rules and regulations and of organisations that define, implement and enforce this regulatory framework. Development of effective and sound institutions in the energy sector is a major challenge to many developing countries. There are often needs for basic reform of public institutions and regulatory reforms of energy markets in general. Important elements of the reform process are: modifying the structure of the energy industry to enhance the prospects of competition; changing the ownership pattern or creating various forms of public-private partnerships to provide stronger incentives for efficiency and growth; and establishing a transparent regulatory framework to balance private and public interests.

Elements necessary for successful reforms are a strong political will to implement efficient regulation, transparency and participation by relevant stakeholders.

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Reforming public institutions and energy utilities

In situations where basic conditions for successful reform are deemed to be in place, Sida supports reform processes in a variety of ways. Sida supports the strengthening of national and regional policies, the development of legislation and regulations, and the capacity to implement them. Support to reform processes may also involve providing expertise and advice for sector policy development, providing support for participatory decision-making processes, and temporary financing to enhance management capacity to achieve the commercialisation of energy utilities.

There is a strong link between energy sector investments and other development efforts. Sida therefore supports capacity building of public authorities (national, regional, district, municipal and community) and non-governmental organisations in the planning, expansion and management of energy supply systems.

Reforming energy markets

Sida supports the development of competitive energy markets when appropriate, throughout the energy supply chain of generation, transmission and distribution. Sida's support for market development in general is governed by Sida's Policy Guidelines for Support to Private Sector Development. Different initiatives and service providers should be allowed to compete, providing an important vehicle for the development of decentralised energy infrastructures (such as micro-hydro, PV systems, battery-charging systems, etc).

Sida's principal role is to support partner governments in the creation of an enabling environment which allows energy markets to serve the interests of the poor. Targeted short-term interventions in such markets in order to demonstrate opportunities or to remove market obstacles may be justified, as long as the principles defined in the policy guidelines mentioned above are respected.

For instance, poverty and inequity, as well as environmental concerns, provide valid arguments for government interventions in energy markets. Options available for such interventions include taxation instruments and subsidies. Well-targeted, time-limited subsidies for the introduction of modern energy may provide important improvements for poor people by creating access to a wider range of energy service options to choose from. Sida supports the development of policies, methods and tools for these kinds of instruments.

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Developing sustainable energy systems

Financing investments

Investments in energy infrastructure require capital. The public sector will have to continue to play a major role in financing needed investments but a significant part of the capital, in both local and foreign currency, must be mobilised from private investors and financial markets. In countries where progress has been made in reforming the energy sector, Sida can support government investment with grants and soft loans and can make guarantees available in support of private investment.

Environmental and social considerations

All Sida's support to energy interventions shall be subject to environmental assessment in accordance with Sida's regulation on "Environmental impact assessment in development cooperation".

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ENERGY PLANNING Investments in energy systems need to be carefully considered from an environmental and social point of view since they are often long-term and of an irreversible nature. Energy sector development must therefore employ a broad, long-term and precautionary approach. Sida supports global, regional and national policy development, networking, energy planning and research to increase the understanding and management of energy-environmental issues in a holistic context. Sida also supports capacity building and development of methods in national institutions and utilities responsible for energy-environment issues.

Sida supports stakeholder participation in the planning process of energy programmes to ensure that selected energy services are appropriate, socially acceptable and sustainable. Assessment of socio-economic, gender and HIV/AIDS impact shall always be made. Conflict analysis shall be carried out for projects in areas in which there is a risk of conflict. Interventions shall include measures in these areas to mitigate negative and enhance positive effects. Sida also strives to promote information dissemination and communication in all interventions, thereby enhancing accountability and transparency.

There are many potential linkages between energy cooperation and other types of development cooperation, for example, interventions in the health, education and transport sectors, area-based programmes, research programmes, and private sector and financial systems development. Sida tries actively to develop synergies across interventions.

CLIMATE CHANGE Energy extraction, supply and consumption have an impact on the environment at local, regional and/or global level depending on the chosen technology and the scale of the operations. From a global perspective, the energy sector is a main contributor to greenhouse gas emissions. Sida supports institutional and capacity building in connection with climate change, including the flexible mechanisms established under the Kyoto Protocol. Sida supports interventions that mitigate emissions, including demand-side management, energy efficiency in buildings, and other energy-efficiency measures. Sida has a separate position paper on climate change.

Ecological and hydrological changes as a consequence of climate change may, over time, threaten the production and distribution capacity of energy systems. Sida supports strategic feasibility studies to provide countries with comprehensive knowledge for assessing and selecting alternative strategies for energy system expansion.

Energy supply options

Often a mix of energy technologies is required to satisfy different energy service needs and to secure reliable supplies. Supply security and cost efficiency are enhanced with a diversified energy supply. Sida supports efforts that increase access to a mix of modern energy services. Sida gives priority to support for increased utilisation of renewable energy sources. As first priority, whenever possible, long-term sustainable solutions will be considered.

Fossil fuels will continue to play a significant role in meeting the world's energy needs. Therefore, interventions that reduce fossil fuel reliance can have a positive impact at the global, regional and local levels. An important barrier to access to modern energy services can be the higher costs involved in making a transition to cleaner and more efficient fuels and energy technologies. Sida supports efficiency improvement, emission reduction and transition to cleaner and more efficient fuels in existing energy systems. Among fossil fuels, those with least environmental impact shall be preferred and Sida supports efforts to reduce cost and overcome access barriers. Sida's energy cooperation with the world's poorest countries aims at significantly increasing poor people's access to modern energy services. It may involve the use of fossil fuels in cases when renewable energy alternatives have been rejected as a consequence of proper environmental, economic and social assessments. If energy supply systems based on non-renewable energy

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sources are considered to be the most appropriate solution, explicit justification shall be prepared and the systems shall be carefully designed in order to minimise negative environmental impacts.

Sida supports sustainable hydropower development since hydropower is an important energy source and has considerable development potential in many developing countries. At the same time, the environmental impacts of hydropower on livelihoods, water, soil, landscape, flora, fauna, cultural heritage and other aspects can be considerable, particularly where large dams and reservoirs are part of the projects. Sida shares the values and agrees with the conclusions laid down in the report of the World Commission on Dams (WCD). Sida therefore follows, as far as possible, the WCD's recommendations for planning, construction and resettlement.

The use of wood-fuel and charcoal in households often causes emissions hazardous to health. In many cases unmanaged biomass extraction has negative environmental impacts. Furthermore, collection of wood-fuel increases the burden on poor people, particularly women and girls. Sida supports efforts for a gradual transition to cleaner fuels and modern biomass technology, as well as efficiency improvements in the present wood-fuel and charcoal systems. However, since wood-fuel will continue to be used, agriculture and forest management interventions need to take this into account.

Regional and global cooperation

In a long-term perspective, regional power trade and regional power systems will play an important role in improving the supply of power. They will also reduce and spread the risks involved in large power investments and thereby facilitate private investments. Power systems integration with mutual benefits across national boundaries may also play a positive role in reducing conflicts, an issue that will be given special attention by Sida. Sida supports regional power integration initiatives.

Sida participates in strategic international networks through which multilateral and bilateral donor organisations promote policy development, donor policy coherence, mobilisation of infrastructure financing, and exchanges of knowledge related to energy sector development. Such participation provides Sida with opportunities to both influence and learn from the international dialogue on energy policy.

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EDITORIAL SUPPORT:
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DESIGN&LAYOUT: ANNA LIND LEWIN
ILLUSTRATION: MAJA MODÉN
ARTIKELNR: SIDA24669EN
ISBN: 91-586-8347-X
PRINTED BY EDITA

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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