

**Financing for Development Conference 2007**  
***Theme: Infrastructure for Growth – The Energy Challenge***

**Concept Note**

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This Concept Note identifies some of the key issues that will be addressed by Africa's Finance and Energy Ministers at the Second Financing for Development Conference to be held in Accra, Ghana on the 30<sup>th</sup> and 31<sup>st</sup> May, 2007.

**I. Background**

Africa's Finance and Education Ministers, the UK Chancellor of the Exchequer, International Financial Institutions (IFIs), agencies of the UN, development partners, and representatives of civil society held a meeting at Abuja, Nigeria, on May 21 and 22, 2006 under the theme "Financing for Development: From Commitment to Action in Africa". The Abuja Meeting marked an important milestone in international discussions on development finance.

An increasing number of African countries have taken up the development challenge by formulating MDG-based national development strategies that underscore a balanced set of priorities that could deliver the growth levels required to reduce poverty. These efforts, notwithstanding, many of these countries are deemed to be unlikely to meet the MDGs unless significant increases are made in official development assistance to address the financing gap in such countries. The international donor community has responded to these financing needs through a series of unprecedented aid commitments. Yet, despite making commitments of increased aid to sub-Saharan Africa, the international donor community had been slow in disbursing the needed financing. The concept behind the Abuja Conference was to address the challenges remaining in converting these aid commitments into development outcomes. It was, in a sense, a forum for African Governments to take ownership of their development strategies and also take the lead in securing additional financial resources needed to achieve the MDGs. It was, indeed, a critical first step by Africa's leaders to lead a process that translates financing for development commitments into action.

A major objective of the Abuja Meeting was to find ways of monitoring the implementation of development commitments needed to attain the MDGs. In particular, the conference sought to find ways to operationalise the 2005 Gleneagles G8 and the 2005 UN General Assembly commitments in support of the Millennium Development Goals (MDGs) in Africa. These principal stakeholders deliberated on ways that would ensure better and effective alignment of the programs of the IFIs and bilateral development partners in support of partner countries' national development strategies to achieve the MDGs. It was meant to design a workable "Framework for Scaling Up Action to Achieve the MDGs".

## II. Agreed Commitments at Abuja

A total of seventeen (17) specific commitments were mutually agreed at the Abuja Conference — five (5) relate to governments, eight (8) to international partners, and four (4) to civil society.

### *Action Points for Governments*

1. Provide additional budgetary resources for achieving the MDGs in line with existing international and regional commitments.
2. A total of twenty (20) countries —*Burkina Faso, Cameroon, Ethiopia, Gabon, Gambia, Ghana, Kenya, Madagascar, Mali, Mauritania, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Swaziland, Tanzania and Uganda* — were to provide costed 10-year education plans by September 2006. Ministers agreed to write to the G8, setting out their commitments to present 10-year plans at the IMF/ World Bank Annual Meetings in September 2006 scheduled for Singapore.
3. Review and strengthen macroeconomic frameworks in existing and new national development plans in the context of scaled up assistance from development partners.
4. Carry out analysis of efficiency of public expenditure management systems in ten of the twenty countries by December 2007. Lessons to be reflected in the implementation of 2008 budgets.
5. Make information on government financial operations freely available to civil society organizations (CSOs) and other stakeholders, within the context of existing legal frameworks.

### *Action Points for International Partners*

6. Partners to deliver on commitments already made, and to provide additional resources in a timely and predictable manner to achieve MDG targets.
7. Agree to and fill the existing education financing gaps for Fast Track Initiative (FTI) countries for 2006 and 2007.
8. Review HIV/AIDS plans during upcoming Global Fund for Aids, Tuberculosis and Malaria (GFATM) meeting and commit to increased and predictable funding.
9. IMF to assist individual countries to review their macroeconomic frameworks with a view to strengthening and aligning them towards scaling up for meeting MDG targets. The IMF to report on progress during annual meetings.
10. DAC member countries, which had not already done so, to announce their own action plans to achieve Paris Declaration principles.
11. Provide a progress report on item 10 above at the next DAC high-level meeting.
12. As part of the information needed for mutual accountability, development partner agencies would publish what is disbursed to non-state actors.

13. Explore the possibility of additional assistance to middle income countries with specific problems relating to HIV/AIDS.

*Action Points for Civil Society*

14. Establish coalitions to support process of improving preparation and implementation of development plans.
15. At the international level, coordinate efforts towards monitoring aid and agree sustainable framework specifying roles and responsibilities of various actors involved.
16. At the national level, form strong coalitions to monitor progress against commitments by both governments and development partners including monitoring the use of domestic resources.
17. As part of the information needed for mutual accountability, non-state actors should publish their accounts and provide information about the use of funds.

### **III. Singapore Follow-up Meeting**

As part of the outcome of the Abuja Conference, a follow-up meeting was held at the World Bank/IMF joint meetings in Singapore in September, 2006. At this meeting Africa's progress in developing long-term education plans was reviewed. Ten (10) countries — *Ethiopia, Gambia, Ghana, Mali, Mauritania, Mozambique, Senegal, Sierra Leone, Tanzania, and Uganda*— out of the total of twenty (20) pledged at Abuja, and Malawi and Zambia presented reports.

### **IV. The Maputo Conference**

The Forum of Energy Ministers of Africa (FEMA) will hold a Ministerial Conference on “Energy Security and Sustainability” in Maputo, Mozambique from March 28-30, 2007. The conference will “provide a high-level forum for Ministers to articulate a policy and investment framework for scaling-up energy access in Africa, which could help establish a strategic contract between African nations and their Development Partners to accelerate access to modern energy in order to boost growth, reduce poverty and attain the MDGs”. Outcomes from this conference which include the provision of inputs to the launch of sector-wide investment programs for secure and sustainable energy in African countries will be very valuable ingredients to the success of the Accra Conference.

## V. The Accra Conference

The second in the series of the Financing for Development Conference will be held in Accra, Ghana on 30<sup>th</sup> and 31<sup>st</sup> May, 2007. The theme of this conference will be: **“Infrastructure for Growth – The Energy Challenge”**.

Among other things, the Accra Conference will take stock of progress achieved in respect of the undertakings and commitments made at both the Abuja and the Singapore rounds. Its main focus will, however, be directed at the energy sector, particularly its financing and contribution to the growth agenda required to meet the MDGs by the 2015 target date.

### *Why Focus on Energy*

Several nations on the continent — including oil-producing countries — are confronted with serious deficiencies in energy supply in all its various forms. Inefficient management of utilities, corruption, protracted conflict and short-sightedness have deprived most countries of the energy supplies needed to fuel the growth process. In many cases the needed investments to rejuvenate the energy sector are beyond the financial capacity of the domestic economy — both public and private. Moreover, the activities of public utilities often have a huge impact on the management of the economy, especially when imported fuels are bought in foreign exchange and end-users pay in local currency at rates below full-cost recovery.

Although the debate about whether to reform energy markets is now largely academic, there still remains much to be learned about how reform can be made to work in the particular circumstances of each individual country, especially where the existing infrastructure, technical capacities and legal frameworks are weak. Moreover, reform is intimately linked to the political process and its success depends on strong political commitment in the face of opposition from vested interests.

### *The Energy-MGDs Linkage*

Access to sustainable energy is key factor for promoting social progress and economic growth—both of which are closely linked to sustainable poverty reduction. Energy plays a critical role in underpinning efforts to achieve the Millennium Development Goals (MDGs) and improving the lives of poor people across the world. Lack of access to adequate, affordable, reliable, safe and environmentally-friendly energy is a severe constraint on development. And the number of people without that access, even to meet their basic needs, is staggering: over two billion people lack clean and safe cooking fuels and must depend on traditional biomass sources.

Poor people see access to energy as a priority. There is ample evidence to suggest that improved access to sustainable energy in the rural areas spurs economic growth, enhances social progress and reduces poverty. Energy, however, is not just about electricity, neither is electricity always the best energy source for all needs— biomass, kerosene and other sources are important too. Given that there is little doubt about the

important role that sustainable access to energy plays in growth and poverty reduction, it is imperative to improve access to sustainable energy among the rural and urban poor in Africa.

Demand for energy is a ‘derived demand’: people do not want energy in itself but the ‘energy services’ it provides — cooking, lighting, heating, water pumping, and transport. A full menu of options should be considered for providing energy services to the poor, including from renewable energy sources, traditional biomass, and fossil fuels combined with cleaner, more efficient energy technology. The benefits of cleaner technology need to be balanced against the benefits that other technologies can provide. Reliance on fossil fuels and biomass will continue for many years, so development plans should include them in the overall energy strategy, particularly how to encourage more sustainable management and cleaner and more efficient uses.

Energy can contribute to all three pillars of sustainable development - economic, social and environmental. But the local and national context - political, social, technical and economic - should be taken into account for all energy interventions since ‘one solution does not fit all’. Flexibility of approach and intervention is needed to fit with the specific context and priorities. Co-ordination and consistency is needed between sectors to maximise the benefits of providing access to energy for the poor. And more attention needs to be paid to social issues related to energy use than in the past.

#### *Key factors limiting energy access*

In spite of the abundant energy resource potential in Africa, many countries have not been able to create the conducive environment to attract investment in the development of the energy sector. In addition, the small size of African energy systems and markets does not allow for profitable business ventures in the sector. Against this background most of the regional economic communities (RECs) are encouraging the establishment and operationalization of sub-regional power pools and joint development of hydropower projects and cross-border gas pipelines (e.g., Inga project, and West African Gas Pipeline project). Some RECs have also adopted a legal and regulatory framework with fiscal incentives and guarantees aimed at “dispelling the risk” for investors in the energy sector at the regional level, as in the case of the ECOWAS Energy Protocol.

#### *Approaches to improving energy access*

A new approach needs to be taken to ensure that energy underpins efforts to achieve the MDGs. This means:

- taking a people-centred approach, reaching beyond the technical issues, to deliver energy services that meet peoples’ needs and priorities;
- ensuring that communities have a voice in the decision-making process on how to meet their energy needs;
- working across all sectors to integrate energy more fully into development processes early on;
- working at local, national and international levels, in order to develop pro-poor policies based on real evidence of the impact of energy on poor people;

- taking a holistic approach to energy rather than a project-based approach;
- building a deeper understanding of the links between energy and poverty reduction; and
- improving access to appropriate affordable energy services through:
  - better management and regulation of the energy sector;
  - increasing the efficiency of energy provision and use;
  - increasing the choice of energy services;
  - developing local capacity;
  - encouraging partnerships and attracting private investment in energy services; providing access to finance at all levels and reducing costs; and
  - designing smarter subsidies and other policies that work for poverty reduction.

### *Key Issues*

A key emerging issue on energy financing and development has to do with the need for integrated infrastructure development projects that are designed to provide both energy and water services to the rural and urban population, while also supporting food production as part of achieving food security.

All energy services cost money, and are bought and sold in various markets. At present, energy markets are not very effective in providing energy services in developing countries. Reform of these markets and improvement of their governance arrangements are central to any strategy adopted to increase the supply, improve the efficiency and extend the access to modern energy services. Against this backdrop, four issues are particularly important for poverty reduction as far as energy is concerned:

- how to improve the effectiveness of energy sector management;
- how to attract more capital in order to increase access to energy;
- how to make energy services affordable; and
- how to make government policies work for poverty reduction.

The Accra Meeting will seek to find sustainable solutions to these issues and others related to them. Specific areas for discussion will include:

- Stocking-taking exercise — nature and extent of energy situation in Africa, including an assessment of the current infrastructure and the financing gap that the continent faces;
- Africa's medium and long-term energy policy challenges;
- Ensuring the reliability and security of energy supply;
- Single-country vs. multi-country systems and their viability within a sub-regional context;
- Linkages between access to energy and growth and poverty reduction;
- Obstacles to energy development and efficient energy service delivery — key issues here may include cost structure, institutional and policy issues, regulatory framework, pricing, maintenance culture, demography, and geography;
- Maintenance of energy infrastructure;

- Feasible and sustainable financing solutions, including Regional Approaches, Public-Private Partnerships, role of development partners and international donor agencies.

Additionally, the Meeting will take stock of progress on commitments made by both African countries and donors at Gleneagles, Abuja and Singapore, especially in the areas of costed multi-year educational plans, the financing of education, and the mainstreaming of education in national budgets.

*Expected Outcomes*

The Meeting is expected to come up with sustainable approaches to improving energy access and the complementary financing options, including viable private-public partnerships.