Analysis of the EFSD Investment Window on Sustainable Energy and Connectivity

Introduction

Renewable energy access, the implementation of energy savings measures and climate sensitive transport are indeed essential to reducing poverty and fostering the transformation to a competitive low-carbon and climate-resilient inclusive green economies. However, supporting access to affordable, sustainable, modern and reliable energy through the EFSD needs to be done within a broader and more comprehensive national sustainable development plan in partner countries.

It is important that the Sustainable Energy and Connectivity (SEC) window of the EFSD contributes to wider efforts that seek to address programmatic and political constraints in EU partner countries; including for example flawed regional and national energy policies, the need for skills and education training, as well as institutional weaknesses in energy generation and connectivity.

Therefore, EFSD support should not be implemented in isolation but as part of a package of measures that will also strengthen policy and regulatory frameworks and national sustainable development plans.

Funded projects should directly contribute to national and regional renewable energy targets and connectivity whilst also generating co-benefits towards other sustainable development objectives; eg. Quality education and health services, adaptation to climate change impacts, gender equality, improved and more efficiency in sectors such as agriculture, information technology and financial services.

The execution of projects in the SEC window should thus be pursued in full collaboration with the other EFSD Windows, and importantly together with the other pillars of the EIP.

A missing – and crucial – dimension in the window's description is how it will be made compliant with the objectives of the Paris Agreement which is binding to the European Union and its member states. Indeed, the Paris Agreement requires that financial flows are compatible with a pathway towards low greenhouse gas emissions and climate-resilient development. Therefore, if the EU is serious in implementing this commitment and contributing to SDG #13 "Take urgent action to combat climate change and its impacts", it needs to ensure that all projects supported under the EFSD, and especially under the SEC window, do not undermine the Paris Agreement. In practice, this means that an **explicit ban on fossil fuel projects** needs to be part of this Investment Window's description.

Buildings account 36% of global final energy use and 39% of global CO2 emissions. In Africa, the floor area of new residential buildings is expected to more than double in the next 20 years so the focus should be on introducing mandatory building energy codes. In European Neighbourhood countries, most of residential building stock for the next 20 years is already available, so the focus should be on deep renovations. All this should be implemented with a clear goal to reduce energy poverty.

Initial reactions to the SEC window outline

1) Policy Rationale

Despite the title of the SEC Window, there is **no specific reference to improving renewable energy *connectivity*** of communities, towns and villages. Many electricity-poor households live close to the grid. Extending the grid to them will be an important tool for energy access. Yet communities living close to the grid still face technical barriers that eventually prevent their connection: for example, cost is one issue as populations are often disperse, and the low-tension distribution lines used to connect them result in high energy losses and instability in the power system.[1]
Therefore, connectivity is essential, particularly for pursuing the development and dissemination of both small-scale stand-alone energy infrastructure in isolated areas and distributed renewable electricity and clean cooking solutions. It has been found that some of these services are the fastest and most cost-effective way to connect the majority of communities and households without modern energy.

In addition, the SEC window mentions the **energy efficiency, yet it completely neglects the cooking sector** which is a sector in sub-Saharan Africa that has a substantial impact on CO2 emissions. It also contributes significantly to deforestation. To this end, target-setting on energy efficiency measures through EFSD support should be explored and identified. Energy efficiency of residential building and access to affordable energy by citizens, especially vulnerable groups should be a key priority in considering investments

The expansion and greater deployment of **renewable energy should not be regarded as an offset of fossil fuel production and consumption** [pg 1]; such an approach prolongs the unnecessary and detrimental use of fossil fuels. It also indicates a continued financial incentive for fossil fuel investments, when they should be completely phased out in the medium and long-term. The provision and mobilisation of EU funds in partner countries **should not go to fossil fuels**, and the EFSD should clearly signal prioritisation for clean energy solutions. This is particularly important given there are cost-competitive and less polluting energy sources available today which funds should prioritise.

We agree that investments should respond to the specific situation and needs of a given country or region [pg 2]. We also emphasise that addressing certain needs in relation to energy access should not come at the cost of other public goods and services; for example, access to safe water and sanitation, land rights and biodiversity. Thus, further to excluding any support to fossil fuels and fossil fuel infrastructure, **we recommend that the EFSD does not fund environmentally damaging projects such as hydropower plants or crop-based biofuels.**
It cannot be assumed that diligent environmental assessments will prevent the construction of hydropower projects which may cause detrimental effects for land and water resources as well as local communities.

[1] Cafod position paper 'Beyond Coal: Scaling up to clean energy to fight global poverty';
https://cafod.org.uk/content/download/32264/380742/version/1/file/10964.pdf

Building on the need for a coherent and transparent approach to the policy rational for the SEC window, we highlight that EFSD support helps to address energy access concerns within a broader and more comprehensive national framework on renewable energy and sustainable development in partner countries. It should thus ensure full compatibility with international standards and safeguards such as the UN Guiding Principles on Business and Human Rights. **The SEC Window should also ensure the promotion and full respect for human rights and the environment, through a participatory approach that includes gender analysis,** on projects funded through the SEC Window.

On transport, strong collaboration with the Investment Window on Sustainable Cities will be crucial. A great deal of transport infrastructure will be developed in cities; including aviation, roads, railways and passages for public transport services such as buses and metros. Energy efficiency of public transport systems will contribute to the greater efficiency and safety of transportation.
Similar to our assertions on energy support, EFSD support for sustainable and safe transport should be implemented as part of a wider contribution to coherent transport policy and multi-stakeholder capacity-building for cities, regions and local authorities.
For example, support for transport policy that aims at reducing demand, achieving modal shift and vehicle efficiency improvements. Policies should focus on reducing the amount of passenger-kilometres travelled per capita and freight transport demand, while encouraging a shift by passengers and goods to lower energy intensive modes of transport.

Importantly, the EIP and EFSD should draw from lessons learned in financing transport infrastructure in the EU. In the past, there has been misuse of EU funds for transport projects that are neither economically viable nor environmentally sound; for example, through support for ghost airports without full assessment of their necessity.

2) Operational Concept

Among the related risks to be addressed, the SEC window only mentions payment risks, off-takers payment not honoured and off-taker bankruptcy. Further interventions should be considered:

- Capacity Building of the off-takers
- Promotion of new off-takers (business nurturing)
- Demand generation activities with the communities
- Financial risk mitigation

In seeking to address risks for the developers associated with projects seeking to improve access to renewable energy and energy savings, a proper assessment of the energy and electricity system in the respective partner country should be pursued. It should also go hand in hand with active promotion of productive use of electricity, creation of payment solutions and sensitization of communities on the opportunities brought by electricity in order to be effective.
In addition, there is a need for awareness raising programs about the benefits of energy efficiency in order to foster behavioural change in energy consumption. Capital investment should target micro-finance institutions that can develop energy efficiency loans e.g. buying energy efficiency stoves for cooking. In Neighbourhood countries, commercial banks should get bank guarantees so that they can develop energy efficiency deep renovation loan products for home-owner associations.

In many developing countries – including those with the potential to implement EFSD funded projects – there are key challenges such as power sector mismanagement and poor governance of the power utilities.
In addition, the SEC Window should consider the time it takes for certain projects to start generating energy from the time of investment. The Africa Progress Panel indicated that large power plant can take up to a decade from the time of initial investment decision to the time of actual energy generation.[2]
Decentralised stand-alone and mini-grid solutions can be some of the quickest and most cost-effective way to begin delivering electricity in most cases.

Additional benefits brought about by EFSD funded projects could include enhanced equity in partner countries regarding access to energy (for example, through ending pro-rich fossil fuel subsidies); the strengthening and implementing RE and EE targets; collaborative, transparent and participatory reform of energy governance; and co-benefits for adaptation and resilience needs in vulnerable countries and communities.
To this end, it would be good to have a better understanding of what a results framework [Pg 5] would look like, and how it will monitor impacts.

3) Supporting Policy Actions

Implementation of the SDGs and Nationally Determined Contributions (NDCs) provide the ideal blueprint for national and regional policy actions that promote energy access and poverty reduction. **A stable investment climate relies on the contribution and participation of civil society groups and non-state actors, including local private enterprises.** The coordination of the three pillars of the EIP must enshrine transparency and easily accessible information to help ensure that policy actions are genuinely delivering international commitments on climate change and sustainable development.
In Neighbourhood countries, residential energy efficiency and energy poverty and deeply connected. Home-owner associations should be empowered by proper regulation to foster community decision-making and to become credit-worthy for deep renovation loans. Home-owner associations should also be regarded as the key citizen stakeholder group to be involved in all policy development regarding energy efficiency of residential buildings.

We agree that fine tuning energy policies and regulatory frameworks is necessary for increasing investments in renewable energy, connectivity and energy efficiency [Pg 6]. An additional measure to consider is how all three pillars of the EIP can support partner countries in setting and delivering investment targets for scaling-up on- and off-grid electricity connections and access to modern cooking services. Target setting and prioritisation should be done in an inclusive and open manner that promotes community led renewable energy, in full consultation with civil society and local communities, including both female and male representatives.

– ENDS –

[2] http://www.africaprogresspanel.org/wp-content/uploads/2015/06/APP_REPORT_2015_FINAL_low1.pdf

Contact:
Maeve McLynn
Climate Action Network Europe
maeve@caneurope.org

This paper is also supported by:
CounterBalance