

Voluntary Codes of “Best Practice” for Bilateral Donors and the NGO in relation to Renewable Energy and Developing Countries

A note sent to the German Government

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1. In looking for a “political” outcome for the forthcoming Bonn Conference on Renewable Energy, there would be some attraction in asking both bilateral donors and the NGO to sign up to a generally agreed “code of best practice”. Each party might be more willing to sign up to its own code if it thought the other party was also signing up to a code. While I had originally thought that there would need to be two separate codes, it may well be that a single code could be drafted that would apply both to NGO and Bilateral agencies. If you do not have the time to read all this – go straight to the table below!
2. I realise that your conference is not exclusively about developing countries, but my remarks and the code refer only to agencies working for or in developing countries.
3. **For the Bilateral donors** funding renewable energy in developing countries “best practice” would encourage donors to build on rather than undermine the work of other agencies (including government and the local private sector) by entering existing renewable energy markets in specific locations with free or highly subsidised equipment¹. This is sometimes known as “polluting the well”. The code would need to incorporate the idea that while subsidies are likely to be necessary and welcome, they need to be “*smart*”² – that is that they need to be organised in such a way that they encourage the development of the market, rather than destroy it. In many cases private investors (often local investors) will not work in an area where they believe that their products will be undermined by bi-lateral donors making equipment available substantially below cost. I am not unreservedly supportive of the private sector (!) but it is widely accepted now that highly subsidised (grant aided) programmes undertaken by governments, the private sector or NGO tend to fail once the grant funding stops.

¹ Early work on this idea was undertaken by people involved with solar home systems in Indonesia (see personal communication from Jim Finucane, 1st December 1998)

² The term smart subsidies was apparently first coined by Charles Feinstein at the World Bank. More recently they have been associated with the work of Subodh Mathur and Arun Sanghvi in their work at the World Bank on Energy for Rural Transformation in Africa. Further details of what is involved can be found in Floor, Willem, René Massé, and Dean Girdis. 2001. Best Practice Manual: Promoting Decentralized Electrification Investment. ESMAP Report number 248/01. World Bank, Washington, D.C. Page 10.

4. Whether or not subsidies are involved, the aim should be to develop systems that are financially sustainable both for the consumer (user) and the system supplier. The need is for “demonstrations of business success” not “demonstrations of particular technologies”. A code of best practice to prevent “dumping” of renewable technologies such as PV would probably also help speed the creation of financially sustainable markets. Such an approach would be similar to, and build upon, the restrictions agreed within the OECD that prevents countries using aid (and “credit mixte”) and to subsidise their exports with aid.
5. If the case can be made for subsidies³, experience suggests that the use of soft money can both help and harm the expansion of decentralized energy supply options. As always, the “devil is in the details,” and in the specifics of each context. Hence the phrase “smart subsidies” has been coined to put some distance between current forms of subsidy and the earlier forms, such as subsidies on grid-based electricity, kerosene and diesel, that have been shown to stultify innovation, destroy markets, and support the already rich. A large number of technology-driven schemes currently adopt a strategy of trying to increase sales through subsidy. This is particularly the case with photovoltaics. The conventional argument is that increased sales will reduce the cost of production and, more importantly, enable the overhead costs of providing technical support and supplying retail credit to be spread over a larger number of unit sales.
6. The evident danger of such an approach is that “soft” money intended for social investment is often used to subsidize the costs of these supply options for those who could readily afford to pay the true cost if they genuinely regarded this as a priority area of expenditure. Furthermore, the use of subsidies linked to a particular supplier can make matters difficult for other entrants to the market.
7. In essence, *smart subsidies* should:
 - Follow pre-established rules that are clear and transparent to all parties.
 - Focus on increasing access by lowering the initial costs (technical advice, capital investment) rather than lowering the operating costs.
 - Provide strong cost minimization incentives, such as retaining the commercial orientation to reduce costs.
 - Remain technologically neutral.
 - Cover all aspects of the project including end-use investments, particularly to encourage pro-poor income generating end uses.
8. For the NGO, the issue is more about transparency and ethical behaviour. In particular there have been concerns that a number of NGO have had a detrimental impact on the welfare of poor people in developing countries by over simplifying their “advocacy” messages, and promoting a funding culture in which all their activities are reported as “successes”.

³ The argument here is taken from Henry Lucas, Andrew Barnett, and Hillary Standing, Energy, Poverty, and Gender; A Review of the Evidence and Case Studies in Rural China, The Institute of Development Studies, The University of Sussex, U.K. with the assistance of Lu Yuelai, Susan Jolly, Winfried Rijssenbeek, Li Junfeng, Miao Hong, Zhu Li, Ding Shijun, Jiang Xin, Xu Feng, Feng Shiping and Wang Yu. Published by ASTAE, World Bank Washington, April 2003. <http://www.worldbank.org/astae/enpogen/>

9. A code of best practice for NGO working in the renewables area of developing countries might include the following:
- Clarity on their mandate: when NGO say they are representing the views of people in a particular location, they should be able to provide evidence that these people have given the NGO a mandate to speak on their behalf (and to demonstrate how this mandate was acquired and what numbers of people were involved).
 - Evidence Based Advocacy. NGO who advocate a particular policy or technology should be able to demonstrate the empirical basis of their argument, subject their analysis to peer review and put it in the public domain.
 - Clarity in the trade-off between poverty reduction and the environment. NGO need to state clearly whether their primary objective is to improve the position of poor people in developing countries, or to promote the use of renewable energy. They are clearly not the same thing.
 - Clarity of language. In order to promote effective communication, it is important for all parties (and not just the NGO) to define the words they use. In English, if not in other languages, it is relatively easy to create a false sense of consensus by using “weasel words” that mean all things to all people. In particular there is a substantial difference between those that support the “narrow definition of sustainability”, meaning a future in which the only resources to be used are “renewable” (ie no fossil fuels, no use of firewood unless it is from sustainable wood lots, etc) and “the wider definition of sustainability” which is taken to mean a “socially and environmentally responsible” use of resources⁴. Clearly most NGO currently exclude hydro from their definition of “sustainable and renewable” energy.
10. I realise that the phrase “code of conduct” is not very attractive to governments and the private sector at the moment. It may be worth developing another phrase such as “the Bonn accord”, or build on phrases such as Guidance Principles, Minimum set of conditions, Rules of engagement, Transparent Transactions.
11. The following table is a first attempt at drafting the code of best practice in simple and short language.
12. I follow this with a short statement, which you will have seen many times before, but I feel is at the heart of the dilemma facing people concerned with poverty reduction (such as me) who come to your conference!

⁴ This appears to be the terms favoured by Ian Johnson at the World Bank who is the Vice President for Sustainable Development.

A Draft Code of Best Practice		
<i>For Bilateral Agencies alone</i>	<i>For Bilateral Agencies and for NGO operating in developing countries</i>	<i>For NGO alone</i>
<p>Don't Subsidise exports Aid will not be used to subsidise the exports of the donor country. [Aid to renewables will be "untied".]</p>	<p>"Don't pollute the well" Programmes will be designed and implemented in ways that identify and build on the work of other agencies working in the same project/programme area</p>	<p>Transparent Mandate NGO will not make claims for particular people without evidence of a mandate to do so.</p>
	<p>Use "smart subsidies" Where subsidies are used they will be designed to encourage rather than undermine the development of the market (there will adhere to the principles of "smart subsidies")</p>	<p>Evidence Based Advocacy All advocacy statements will be supported by evidence that is peer reviewed and open to public scrutiny.</p>
	<p>"Meet Users Needs" New renewable energy technologies will only be promoted where it can be shown that they best meet the needs of poor people in comparison with other energy conversion technologies. ("renewables as a means not an end".</p>	
	<p>Make subsidies transparent Where products or services are provided at below their actual cost, the means by which this is achieved (subsidies) will be documented and made publicly available</p>	
	<p>"Validate results" All activities should be evaluated. No claims will be made about the "success" of an activity unless it is [independently] validated and the evidence is in the public domain.</p>	
	<p>"Encourage learning" Incentives will be structured to encourage honesty and learning rather than "success" in project partners.</p>	
	<p>Use Unambiguous Language Key words in policy statements and programme objectives will be clearly defined (eg "sustainable development", "renewable energy", "partnership")</p>	

13. At the heart of current work on renewables in developing countries is an ambiguity about whether the primary aim is poverty reduction, or the introduction of new renewable technologies. In a significant number of cases the energy options that best meet the needs of poor people will involve fossil fuels, and their use can have a negative effect on the local and global environment. There are very few alternatives to fossil fuels for transport (although animals are extensively used) and the cheapest electricity for most people will come from large power stations fuelled by gas, coal, or oil. Even in remote rural areas, diesel engines will provide the optimal solution for providing both shaft power and electrical power for machines.
14. There is therefore an evident tradeoff between the objective of tackling energy poverty and the objective of improving the environmental problems linked to energy conversion and use. In the medium term and certainly under current prices and other incentives, actions to reduce energy poverty can harm the environment.
15. However, a great deal of the interest and funding in rural energy is driven by concerns over global environmental issues (the Global Environment Fund, the Clean Development Mechanism, and the Group of 8 Renewables Fund are three examples). This means these new initiatives often are forced to limit the range of options for meeting the energy needs of poor people to new renewable options.
16. If the primary objective is meeting the energy needs of the not-served and underserved populations, neither the optimal solutions nor the most equitable solutions will be found if their energy options are restricted just to renewable sources (either old renewables, such as biomass, or new renewables, such as photovoltaics). The move toward empowerment as a development objective implies that people in power should allow “the excluded majority” of people to make informed choices from the full menu of energy options, so they can select the option that best meets their needs. They certainly cannot be expected to restrict their options willingly while northern industrial countries are not doing enough to reduce the pollution burden of their current and past energy consumption.
17. The complexity of the arguments over renewable and nonrenewable energy options is well illustrated by a particularly important finding from recent empirical research (by Kirk Smith and others). This suggests that if the people who are currently cooking by inefficiently burning renewable fuelwood were to switch to nonrenewable gas (LPG) there would be a strongly positive environmental impacts and a massive reduction in green house gases per person meal.
18. Simplistic assumptions as to the relative merits and demerits attaching to renewable and non renewable energy sources can be very misleading, and lead to damaging policy responses.