

Trade and Development Board, 66th Executive Session – 5 February 2018
Statement by Mr. Paul Akiwumi

Mr President,
Dr. Kituyi, Secretary General,
Distinguished Delegates,
Ladies and Gentlemen,

As you all know, the key to sustainable development in LDCs and to their reaching the Sustainable Development Goals, is structural transformation. This broad process has two main facets: first, increasing productivity within sectors, such as agriculture, industry or services; and second, shifting productive resources from less productive to more productive sectors and activities.

Energy, and the productive use of electricity in particular, plays a key role in this process of structural transformation. Energy is the lifeblood of modern competitive economies. The crucial importance of energy in the process of economic structural transformation stems from its role as an input to most production processes.

Energy can be considered as a factor of production, alongside labour and capital. All present-day developed countries have powered their rise through increased access to modern, reliable, and affordable energy. Least developed countries cannot achieve structural transformation if modern energy is not channeled to productive sectors and to the building of productive capacities. Yet this basic enabler of economic development, remains an important “missing link” which hampers the development of LDCs.

This Report highlights some stunning facts about access to energy in LDCs. 1) 54 per cent of people without access to electricity globally, live in LDCs, a proportion which is over four times higher than the share of LDCs in world population; 2) 82 per cent of the rural population in LDCs lack access to electricity; and 3) out of the 20 countries with the largest absolute numbers of people without access to electricity, 16 are LDCs.

Another essential aspect of energy use in LDCs is the way in which it is skewed towards personal use. The household sector accounts for 2/3 of energy consumption in these countries. This reflects the weak development of productive

capacities in the LDCs, which entail a relatively low demand stemming from productive companies. In developed countries, by contrast, the household sector generates less than 20 per cent of energy consumption, with the bulk of demand stemming from productive and community users.

As argued in the Report, the deficits in LDC access to energy are rooted in the installed supply capacity of energy in LDCs. At present, the electricity generation capacity per capita in the LDCs is only 1/12 of that in other developing countries and just 1/50 of that in developed countries. This has serious adverse consequences for the economic performance and social outcomes of these countries.

Lack of access to modern energy significantly impairs the quality of life of more than half of LDC population and has several adverse social effects. It has major harmful consequences for the development of economic activities. For example, 42% of enterprises based in LDCs, identify electricity supply as a major constraint. LDCs enterprises suffer on average ten power outages per month, lasting an average of five hours. These outages cost companies on average 7% of their sales' value and do significant harm to equipment and machinery. These shortcomings are also aggravated by the need to invest in backup generators, which further impairs the competitiveness of LDC firms and use up limited foreign exchange earnings.

This Report also argues that the electricity for productive use can transform the economies of LDCs. It can increase productivity, and allow new processes, new products, the deployment of production technologies and the emergence of new economic sectors. Specifically, the rising use of modern energy triggers multiplier effects on the productivity of other factors of production. The introduction and scale-up of electrical energy can strongly enhance the productivity of agriculture, the sector which employs almost two thirds of the LDC labour force. Access to irrigation through electric pumps, for instance, can reduce the dependence of LDCs on rain-fed agriculture and lessen their vulnerability to weather and climatic shocks. This potential is especially important for African LDCs, which have the world's lowest proportion of irrigated agriculture. The availability of electricity can also allow the establishment of the cold chain, which strongly reduces post-harvest losses and thereby, raises agricultural labour productivity and rural labour earnings.

As you all know, ladies and gentlemen SDG 7 foresee ensuring “access to affordable, reliable, sustainable and modern energy for all”. This is usually understood as granting universal access to households. But, access to energy needs to be ensured not only to households, but also to economic producers in agriculture, industry and services, as well as to public and community spaces such as streets, schools, hospitals, etc. These institutions need affordable, efficient, reliable, accessible and available energy access at the required scale.

Policymakers need to give equal weight to household use of energy and to the productive use of energy. This necessary balance between household and productive use is captured in what the Report calls transformational energy access. This is the type of access to energy which responds not only to the personal needs of households, but also to the requirements of producers and public and community institutions.

Productive use of electricity can also help to provide the demand needed for investments in electricity infrastructure to be viable. This operates in two ways. First, the expansion of commercial and industrial firms creates electricity demand which is not only large-scale, but also solvent, given firms’ capacity to pay for modern energy. Second, the expansion of productive activities which leads to structural transformation generates additional employment and, hence, additional demand for electricity. This again helps make additional investment in the energy sector viable.

This two-way relationship between energy use and structural transformation – which the Report terms the energy-transformation nexus – is central to sustainable development. The twin pursuit of structural transformation and SDGs in LDCs will require a truly universal access to energy.

Realizing this energy-transformation nexus supposes that strategies for increasing modern-energy access are integrated into overall development strategies.

The energy-transformation nexus, and realizing the potential benefits for development requires a very deliberate effort by policymakers: (i) It requires developing energy systems that meet producers' needs; (ii) It requires complementary policies to promote productive use of electricity; and (iii) it requires much greater support from the international community, matching the ambition of the SDGs themselves.

In order to harness the energy-transformation nexus, LDCs need to adopt a system-wide approach to energy planning and investment.

The adoption of a system-wide approach in energy in LDCs will inevitably rest on robust but evolutionary governance and market institutions. Governance and market structures need to be tailored to local circumstances. In particular, LDCs should avoid market structures that exceed their regulatory capacity.

Building regulatory capacity adapted to the LDCs' domestic market structure was found to be a high priority. In particular, capacity needs to be built to make regulation more effective and enhanced to match the increasing complexity of energy industry. The report found that the best way to build capacity is practical experience/learning-by doing - but this takes time.

Lastly, I would like to conclude with some remarks on the aspects of costs and finance. The investment costs for universal access to modern energy in LDCs may be in the order of \$12-40 billion per year, from now until 2030. The costs for truly transformational energy access would be substantially greater. Meeting these huge investment needs supposes mobilizing different sources of financing. Domestically, it may include adopting energy tariffs which ensure the financial viability and sustainability of energy companies as well as a prioritization of public to drive investment in national and regional electricity sectors. But, domestic resource mobilization alone will not be enough to address the enormous financings needs of LDCs in energy investments.

Transformational energy access in LDCs must be supported by increased official development assistance. Furthermore, the issue of climate financing for LDCs must be brought back high on the agenda, especially if LDCs are not to be locked into carbon emitting sources of energy.