

Clean Energy for Development, Energy Week, World Bank, Washington, D.C.

Remarks by President Wolfowitz
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Introduction

It is a pleasure for me to be able to welcome all of you to Energy Week 2006 and to the World Bank headquarters.

I am very pleased to have this chance to talk to you about a topic that is so essential to development.

The demand for energy, as I'm sure everyone here knows, is expanding more rapidly than ever, and I think the whole world knows, energy prices are high and volatile.

It has brought many issues of energy security, access, investment, and environmental sustainability back to the center of the international debate.

In the development community, this has meant more attention to the interaction of energy, the environment, and even, specifically poverty.

Lack of energy holds back growth that can create new opportunities for the poor and poor energy choices can damage the natural environment, and that, too, deprives people and particularly poor people of a healthy ecosystem and economic opportunity.

By some estimates, when the use of both traditional and modern energy damages the environment, the resulting costs in health care, and resource depletion, and the impact of such things as acid rain on crops can pull down gross domestic product by as much as 2 to 6 percent... enormous impact.

Growing Demand—and Challenge

Today, the challenge facing the global community is to meet the energy needs that are essential for economic growth and fighting poverty, while at the same time producing if possible the environmental footprint.

The International Energy Agency has projected that world primary energy demand will increase by nearly 60 percent between 2002 and 2030 an equivalent of adding 16.5 billion tons of oil consumption per year.

And two-thirds of that increase is projected to come from developing countries where 1.6 billion people, huge numbers when you repeat it, 1.6 billion people, mostly living in rural areas of Africa and South Asia, still have no access to electricity grids.

In countries like Burundi, Guinea, Malawi, and Rwanda, no more than 5 percent of households have electricity in their homes.

Energy for Growth

Surveys we've done of the business climate and the investment climate have consistently found the lack of electricity services is a "major and frequently a severe obstacle to doing business" for as much as 25 percent of firms in Latin America, for 38 percent of firms in South Asia and nearly half, 44 percent of all firms in sub Saharan Africa.

I had a remarkable experience in my first month as World Bank president of visiting Rwanda (and we're joined here by the Minister of Energy from Rwanda. It's good to have you with us). One of the things that was so amazing to me was to see the progress that the country has made in 11 years since, I guess it's fair to say, the worst genocide since World War II, where 950,000 people were murdered. It has been great progress.

I had the privilege of meeting a Rwandan business woman, in fact a graduate of the World Bank. She worked here for a few years. She then started a successful business in the United States. She went back to Rwanda to rebuild her country. In fact, she said to me, "I came here to grow beautiful roses on the ashes of genocide." She had created a flower farm. She was employing 200, mostly women, from rural villages who had no income before. It's fantastic work. They're exporting successfully to Europe.

I asked her, "What's your biggest challenge?" she said electricity. She said, "I lose 5 percent of my crop to power outages that cause the refrigeration to go down. Five percent is a lot, but for firms that are working on the margin and she's got huge challenges just to get her flowers to Europe, that 5 percent can be the difference between a business succeeding and a business going under.

So when, firms in developing countries report, as they do, that they lose, like she does, about 5 percent of their annual sales due to power outages, that's an average that doesn't account for the people that lose much more and it doesn't account for the people who can't go into business or were forced out of business because they needed reliable power.

Businesses like hers in developing countries have to have more energy if they are going to expand and create jobs.

And those jobs are ultimately bringing livelihoods to people who need them desperately.

Energy and Education

Lack of energy isn't just affecting the bottom line at businesses, in other words, it is affecting the basic human needs like the education of children or the prevention of malaria.

When modern energy service is unavailable, it's frequently children, and particularly girls, who are asked to collect fuel, and are unable to go to school.

In Nicaragua, 72 percent of children living in a household with electricity attend school. Those who live in households without electricity have a school attendance rate of only 50 percent. It is a big difference.

Energy and Health

But poor people in developing countries need not only more access to energy, but also a shift from inefficient energy sources, like fuel wood or raw coal, to more modern, more efficient and cleaner technologies.

Currently, some 2.6 billion people rely on traditional biomass fuels for cooking because they lack access to modern fuels and that's a health problem.

It's hard to estimate exactly what the damage is, but by one estimate from the World Health Organization, as many as 1.6 million people die each year, 1.6 million deaths possibly attributed to indoor smoke from solid fuels. And more than half of those are children under the age of five who are particularly vulnerable to pulmonary infections and other illnesses.

Technology Challenges

So, we share a global responsibility to address these and other health consequences of energy use.

Rich and poor countries alike need to apply energy-efficient technology to cut future greenhouse gas emissions and to meet the energy needs of the developing world. OECD countries are scheduled to replace over a third of their existing power plants by the year 2030, including nearly all coal-fired plants. This represents, potentially, a great opportunity to do better, to producing energy more efficiently and in a way that does less damage to the climate.

The IEA (International Energy Agency) has estimated that developing and transitioning countries will need to invest about \$300 billion dollars annually, from today until 2030, to meet their energy requirements.

It is important that these investments be directed toward more efficient and lower carbon sources of energy especially in the larger economies. Estimates of the costs to move to a lower carbon scenario vary widely, but \$40 billion dollars a year is considered a reasonable figure. It's a big number, but on an investment of \$300 billion dollars, it looks smaller.

Coordinating International Efforts: Investment Framework for Clean Energy

Today, the global community is working to achieve a potential "double dividend" —to meet the energy needs that are essential to fuel growth and to fight poverty on the one hand while preserving the environment on the other. Indeed these are not conflicting goals. It's very hard to fight poverty if you then, in the process, destroy the environment. What we're after, in fact, is sustainable growth.

The decisions we make today on energy policies and technology will have major consequences for the sustainability of growth, and for the health of our environment.

The World Bank Group is working with the international community to see how all of us can tackle these issues at a larger scale and with innovative solutions.

At the Summit of G8 countries in Gleneagles in Scotland last July, the leaders of the G-8 asked the World Bank Group to take a leadership role, as they put it, "in creating a new framework for clean energy and development, including investment and financing."

During the past year, we have been holding consultations with the reinsurance industry, with investment banks, with cutting-edge technology companies and with the governments of some of the big new energy consumers like Brazil, India, China, Mexico and South Africa.

In the first phase we will make proposals to accelerate investment in clean energy so that developing countries can meet energy demand for growth and for poverty alleviation in an environmentally sustainable way.

The second phase, which will have a longer time horizon, is aimed at generating new knowledge on technology options and on the impact of climate change, as well as programs of action for selected countries.

At the end of this month, we will be presenting to the Board of the World Bank Group a proposal for a new Clean Energy Financing Vehicle that would blend grants and carbon finance to support the use of clean energy technologies.

The World Bank Group's Investments in Energy Sector

To sharpen our focus on the transition toward cleaner and more efficient energy sources, the World Bank Group has set an initial target to increase portfolio commitments for new renewable energy and energy efficiency by 20 percent annually over the five year period from FY05–FY09.

We are on track to achieve this goal. In FY05, Bank Group commitments for renewable energy and energy efficiency were \$748 million in forty projects in 28 countries. That's more than double our commitments in the previous year.

Let me cite just a few examples of our work in this sector.

Through the China Renewable Energy Scale-Up Program (CRESP), which there is an exhibit outside, we are supporting China in its effort to increase the share of renewable energy in China from 7 to 15 percent by 2020.

In countries such as Romania, India, and Brazil, we have helped governments improve regulations in the energy sector so they are more objective, transparent, and nondiscriminatory.

In Serbia and Belgrade, I had the opportunity to visit an energy efficient project at a health complex which, has up until now, relied on 19 polluting oil-fired boilers. The goal of this World Bank-financed project is to help the hospital meet EU environmental standards by shifting to cleaner energy like natural gas.

The project has already cut fuel requirements by about 30 percent and heating costs by about half. It will pay for itself in a relatively short period of time. As well as having a marvelous, positive environmental impact.

The World Bank in Africa

We face a particular challenge—and I think an opportunity—in Africa.

Access to the electricity grid in Sub-Saharan Africa has slowly increased, from 9 percent of the population in 1970 to 23 percent in 2005. But 23 percent is nowhere near enough. About 500 million people are still living without electricity.

But, Africa has substantial hydropower and other resources that can be harnessed to produce energy needed for economic growth and fighting poverty.

The estimates are that less than 20 percent of Sub-Saharan Africa's exploitable hydropower has so far been tapped and in Ethiopia, less than 5 percent, to pick one important example.

The Bank will work with other partners to scale up investments, which would be designed to match the individual circumstances of each country in terms of local resources, demography, and location.

And we will also increase support to integrate power systems at the regional level in order to pool resources and save costs.

Increasing the focus on Sector Governance

Like other areas, the energy sector is vulnerable to corrupt practices, perhaps more so to some extent because it is capital-intensive, because it frequently relies on necessary monopolies and it is vulnerable to the discretionary power of policy makers and regulators.

The cost of corruption, however, is impossible to calculate when we consider the loss of potential revenues—like the investors who are discouraged or the consultants and contractors who are deterred from bidding on key projects. Just the delays alone from those kinds of practices are very costly.

In some countries, it is estimated that corruption increases the value of contracts by more than 20 percent. And on top of that, commercial losses in the system can fall in the 15-20 percent range.

The World Bank Group has already made progress in fighting corruption in a number of countries in the energy sector.

For example, we have helped countries in Eastern Europe and the former Soviet Union improve their billing and cash management systems and power trade. We've supported Indonesia's reform of procurement practices and we've helped India and Bangladesh reduce electricity theft.

Conclusion

In conclusion, we share a responsibility together to ensure that the global community can meet the energy needs of the poor and at the same time reap the double dividend of robust growth and a healthy planet. Your discussions over the next three days, your consensus building over the next three days, will be key to advancing this agenda.

As energy policy makers, as representatives of donors, representatives of financial institutions, NGOs, and Bank staff, you have assembled a wealth of experience here in implementing energy projects and policies.

The current forecasts are that in 30 years there will still be 1.4 billion people without electricity and there will be many businesses that lack sufficient and reliable energy services that could be providing jobs for the poor. That's just not satisfactory. We have to do better.

We're looking to you for insights on how we can.

I want to thank you all for your time and your thoughts and for contributing to this conference and I very much look forward to the results. Thank you very much.