

Brief supporting Evidence Report 86

MAXIMISATION OF BENEFITS FOR THE POOR OF INVESTMENTS IN RENEWABLE ELECTRICITY: A POLICY TOOL FOR PROJECT PLANNING

Pro-Poor Electricity Provision

Ana Pueyo, Stephen Spratt and Samantha DeMartino

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The IDS programme on Strengthening Evidence-based Policy works across six key themes. Each theme works with partner institutions to co-construct policy-relevant knowledge and engage in policy-influencing processes. This material has been developed under the Pro-Poor Electricity Provision theme.

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Introduction

Energy poverty is a major development issue: nearly 1.2 billion people, or close to one-fifth of the world's population, have no access to electricity. Close to 85 per cent of them live in rural areas (Banerjee *et al.* 2013). Electrification is seen as central to poverty reduction efforts. Electricity improves users' quality of life and can enable income generation when used for productive activities, hence supporting an escape from the poverty trap. Where generation comes from renewable sources, it also makes a positive contribution to low-carbon development.

While increasing the supply of electricity can create significant effects on poverty, these are not automatic. Firstly, once electricity is generated, it needs to be reliably fed into the system. Off-grid solutions need to provide a durable and sufficient level of access to electricity. Secondly, this additional supply must be made accessible and affordable for the poor. Thirdly, increased electricity consumption then needs to be used in ways that translate into poverty reduction. Fourthly and finally, increased electricity supply can also indirectly reduce poverty by boosting economic growth.

When planning electrification projects, decisions can be taken at each of these four steps that should lead to greater impacts on poverty. However, it is far from inevitable that these decisions will be taken. Drawing on the results of a robust review of the evidence (Pueyo *et al.* 2013), we propose a policy tool to integrate poverty concerns into the planning process of electrification projects. The tool can be of use for development and climate finance institutions funding renewable energy projects, and keen to enhance the poverty impacts of these projects.

Policy tool

The proposed policy tool is organised into six steps. For each of the steps required to achieve poverty reduction through electrification, questions are posed, methods to answer them are proposed, and indicators are defined to appraise the project performance related to each specific issue. Some of the proposed indicators are easy to gather; some others would require a significant effort. Practitioners may wish to apply each step of the framework in full. While this would be likely to lead to the greatest poverty impacts, there are also costs in terms of time and resources that need to be balanced against this. In other cases, there may be a more selective focus on a few of the elements that seem most important.

In all cases, however, thinking through the issues set out in this report is likely to lead to better project design. By 'better', we mean projects that both increase the supply of renewable energy, and achieve the maximum possible poverty impacts in the process. The more that this can be mainstreamed into the standard practices of key agencies, the greater these developmental and environmental impacts will be.

A graphic summary of the policy tool is presented below.



Source: Authors' own.

Next steps

Our expectation is that this tool will be used by investors and funders of renewable electricity projects that consider poverty reduction as a key aspiration. We believe that it comes at a timely moment, when many climate and SE4ALL-related funds are in their infancy and can still be guided in a pro-poor direction.

The next step of our work will involve testing the tool in real renewable energy project/programme portfolios to assess their poverty reduction potential. Its application will show the actual level of effort required to collect indicators, issues around data availability and the potential trade-offs between the different indicators.

References

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