

IsDB



البنك الإسلامي للتنمية
Islamic Development Bank

ENERGY SECTOR POLICY

Sustainable Energy for Empowerment and Prosperity



Economic Infrastructure Division
Economic and Social Infrastructure Department

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Abbreviations

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| 10YS | 10-Year Strategy (IsDB) |
| CO₂ | Carbon Dioxide |
| IsDB | Islamic Development Bank |
| MDB | Multilateral Development Bank |
| NDC | Nationally Determined Contribution (Paris Climate Agreement) |
| PPP | Public–Private Partnership |
| P5P | President’s Five-Year Programme (IsDB) |
| SDG | Sustainable Development Goal (United Nations) |
| SEforAll | Sustainable Energy for All |
| UN | United Nations |
| UNFCCC | United Nations Framework Convention on Climate Change |

Purpose, objectives and background

1. This Energy Sector Policy of the Islamic Development Bank (IsDB) establishes the overall direction for IsDB's energy operations in Member Countries, in line with the IsDB Articles of Agreement, 10-Year Strategy (10YS) and reform agenda based on the President's Five-Year Programme (P5P).
2. IsDB's constituency is spread over four continents and its Member Countries are facing diverse climate, environment and energy challenges, with a variety of regional and country-specific peculiarities. Sustainable strategies for energy development need to be tailored to countries' specific resources and climatic and economic conditions.

Most Member Countries have negligible oil and gas reserves or none at all. Around two thirds of global conventional oil and gas reserves are concentrated in a small number of Member Countries, mainly in the Middle East, Asia and north Africa, and a few in sub-Saharan Africa. For coal, limited reserves are concentrated mainly in the Member Countries that are Commonwealth Independent States and partly in south-east Asia.

Hydro and solar energy have high potential, but this is so far under-exploited. IsDB recognizes that there is huge potential for solar energy in the Middle East, north Africa and parts of sub-Saharan Africa – all areas with major concentrations of Member Countries.
3. This policy is dictated by a changing global energy landscape characterized by a growing sense of energy insecurity, increased energy inequality and local and global environmental concerns. IsDB sees energy inequality and lack of affordability as the most disturbing aspects of the global energy landscape. This policy therefore adopts a people- and planet-centric approach aiming to streamline thoughtful interventions and activities that will empower populations and achieve prosperity, including for women, youth and people in fragile and conflict-affected countries. The theme and title of this policy is thereby sustainable energy for empowerment and prosperity.
4. Some IsDB Member Countries face energy scarcity while others adopt wasteful usage. There is an apparent disparity in access to modern energy services across Member Countries. Those in sub-Saharan Africa have the lowest access rate in the world, while some Member Countries have reached universal access.

5. The lack of access to modern energy in the poorest countries is hampering their achievement of the United Nations (UN) Sustainable Development Goals (SDGs). The situation is alarming and has attracted the attention of the UN, which launched a global initiative, Sustainable Energy for All (SEforAll) to target, among other SDGs, universal access to modern energy by 2030 (SDG7). SEforAll – the Middle East hub of which is hosted by IsDB – is an international organization working with government leaders, the private sector and civil society to drive further, faster action towards the achievement of SDG7 and towards meeting the calls by the Paris Climate Agreement and the recent special report of the Intergovernmental Panel on Climate Change (IPCC) to reduce greenhouse gas emissions and limit global warming to below 1.5°C.
6. This Energy Sector Policy aligns with 10YS, which has established five strategic pillars as the focus for IsDB financing operations: economic and social infrastructure, private sector development, inclusive social development, cooperation between Member Countries, and development of the Islamic financial sector. Energy operations will directly contribute to the pillar of economic and social infrastructure and will play an enabling role for the other four pillars.
7. 10YS has also adopted seven guiding principles to enhance IsDB's effectiveness and efficiency. Three are particularly relevant for energy operations. First, IsDB will practise selectivity in the choice of operations, by tailoring these not only to Member Countries' needs but also to meeting the sustainable development criteria adopted jointly by multilateral development banks (MDBs). Second, IsDB will build its capabilities around the strategic pillars of 10YS by reallocating resources from non-strategic areas. Third, IsDB will use results-based management approaches for achieving development results.

To support the implementation of 10YS, P5P has initiated internal reforms to enhance institutional efficiency and competitiveness and to adapt to changing Countries' needs. Reforms that affect energy-sector operations include: adopting a strategic approach to country programming, to move from want-oriented to need-oriented project financing through the selectivity established by 10YS; using partnerships with leading development partners and knowledge institutions to enhance IsDB's competitive edge; and strengthening project delivery by introducing new financing mechanisms.

8. Aligning IsDB's energy practice with 10YS will require the Bank to:
 - increase focus on energy poverty, on sustainable, reliable and affordable energy supply, and on knowledge services; and
 - develop more robust and results-based operational policies and procedures that are focused on impact.
9. This Energy Sector Policy will be enabled by IsDB establishing partnerships in order to develop a strong knowledge base, promote regional cooperation – especially in the areas of renewables and energy efficiency – and facilitate increased private-sector involvement to achieve energy prosperity. Partnerships will also help Member Countries to realize their Paris Climate Agreement commitments (nationally determined contributions (NDCs), submitted to the United Nations Framework Convention on Climate Change (UNFCCC)).
10. IsDB's contribution to the transformation of the energy situations in its Member Countries hinges on several prerequisites. The most important of these is for the Bank to upgrade its role as a developers' bank and to act as a universal enabler to all the relevant stakeholders, including the profit-driven private sector. Some of the other key factors that can help the Bank to achieve the objectives of this policy include fostering partnerships, devising innovative financing schemes, developing sound and well-coordinated internal processes and procedures, and optimizing the Bank's staff resources and skills.

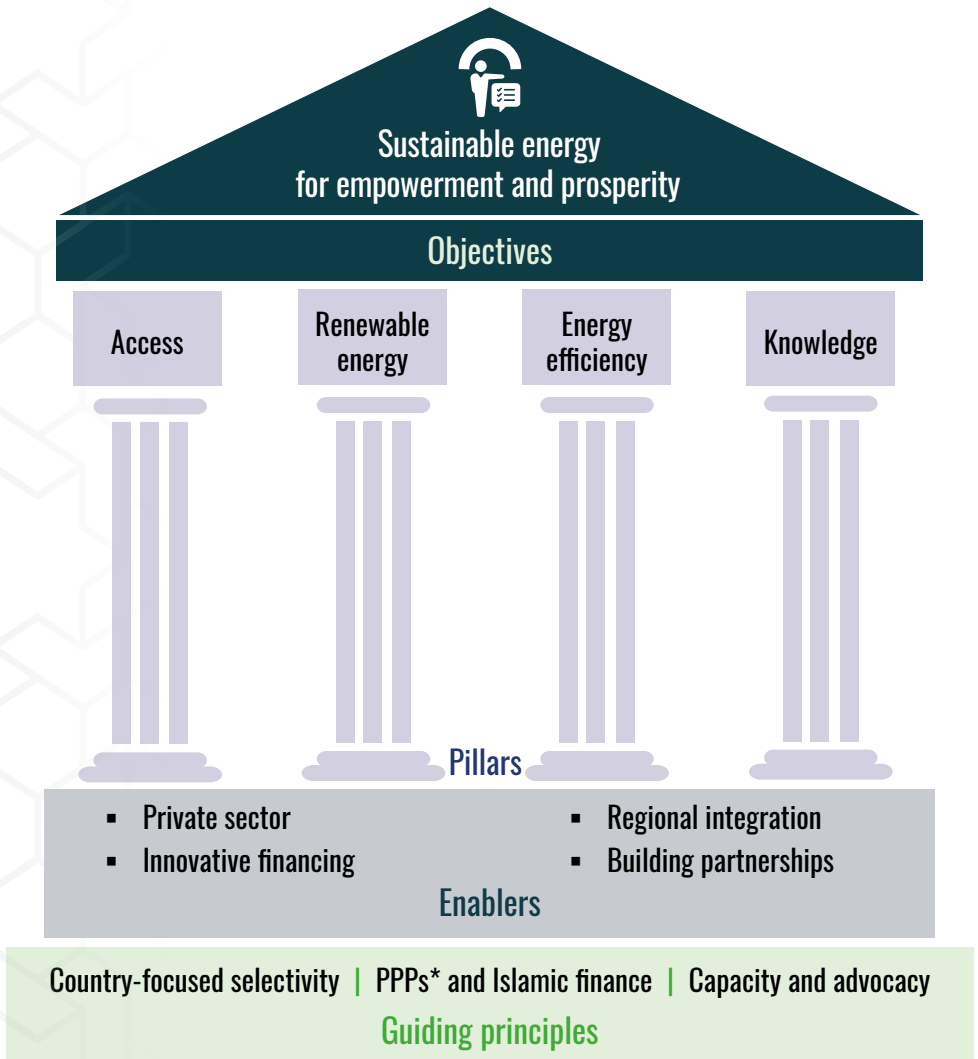
Definitions

11. **Energy sustainability** is defined for the purpose of this policy as access to adequate and reliable supplies of energy at competitive prices, with regard also given to the energy needs of future generations.
12. **Prosperity** is the intended outcome of development based on the five strategic pillars of 10YS. It entails achieving sustained growth in incomes and means that a good quality of life is shared widely among the population.
13. **Empowerment** is the expansion of freedom of choice and action. It means having increased authority and control over the resources and decisions that affect one's life. As people are able to exercise real choice, they gain increased control.

Scope

14. This Energy Sector Policy, building on IsDB's previous version (2013–2017), supports the continued transition of the energy-sector portfolio of the Bank to synchronize with the overall goal of reduced poverty and enhanced sector knowledge.
15. The four pillars of this policy remain those of the previous version since they are valid and linked directly to 10YS, P5P and the SDG targets. More emphasis, though, is given on partnerships and innovative financing mechanisms for scaling up future financing of the sector.
16. The policy's framework (Figure 1) aligns the operational actions and strategy in the energy sector with four pillars and four enablers, underpinned by three guiding principles.
17. The sustainable energy development of Member Countries requires sound economic, social and environmental policies. There is considerable untapped potential to reduce rising energy inequality across the IsDB constituency through rational use of energy and indigenous renewable resources.
18. This policy will build on the recognized strengths of IsDB in energy practice, particularly in areas of conventional power generation – such as thermal and hydropower technologies and transmission and distribution networks – to consolidate the considerable scaling up of the IsDB portfolio seen in recent years. IsDB will make all efforts to use the cleanest and most efficient technological options for increased performance. IsDB's interventions will also be more selective to bring about a balanced allocation of resources against the following four policy pillars.
 - (i) ***Increase access to modern energy services.*** In line with the UN efforts to provide universal and affordable access to sustainable modern energy services by 2030 (SDG7), IsDB will consider scaling up its support for energy access in the following ways: systematically adding an access component to conventional power projects; developing new business models to provide access to energy through distributed generation, decentralized grids or consumer-based solutions; and gradually promoting modern forms of energy service, for the basic needs of lighting, cooking, heating and so on. Interventions to increase modern energy access will also include the development of new grid infrastructures and the rehabilitation or extension of existing ones.

Figure 1. Framework for the Energy Sector Policy



*PPP = Public-Private Partnership

When selecting projects, IsDB will give special consideration to extending support to new operational areas, such as into the improvement of grid operational efficiency and of the financial performance of power utilities. Cross-border interconnections will be promoted at the levels of both transmission and distribution.

IsDB will also examine the provision of energy forms such as oil and gas and of the relevant downstream infrastructures, based on the principles of safety, operational efficiency and sustainability. Nuclear power generation will not be among IsDB's priorities at this stage.

- (ii) **Scale up renewable energy.** Most Member Countries, especially in north Africa and the Gulf, have outlined ambitious plans for the development of renewable energy, especially solar, on very large scales. Photovoltaic solar energy has become an economically viable option to supply electricity for remotely located rural communities. Concentrated solar power (with thermal storage) is also expanding as the cost falls.

Some energy-intensive and export-oriented economies are using renewable energy development as a means, however, to free up oil and gas resources for export revenues.

Most Member Countries are developing renewable energy generation not only to meet increasing local and regional demand but also to develop local equipment manufacturing, seeing job creation and increased revenues as a critical priority to resume growth. IsDB intends to play a catalytic role in promoting renewables, and solar energy in particular, as a part of its goal of sustainable energy development and as an alternative to fossil fuels.

- (iii) **Increase energy efficiency.** Maintaining the growth rate of energy consumption at a level compatible with sustainable development is essential, though it is more complex than simply adding supply. It is important for IsDB to assist Member Countries in: evaluating best practices in energy management; tailoring these practices to Member Countries' unique characteristics; and adapting policy frameworks, and planning and management procedures, for the adoption of new energy-related technologies. IsDB, through well-designed and targeted energy-efficiency improvement projects, will assist all Member Countries in moving their energy sectors along a less energy-intensive path.
- (iv) **Improve knowledge services.** 10YS identifies the creation and dissemination of knowledge as essential to fighting poverty and leading Member Countries towards prosperity. This transformation is a long-term objective that will require the budget and human resources first to develop an institutional knowledge base and then to improve knowledge exchanges among Member Countries.

Sector work and technical assistance, standing alone or linked to financing activities, are instrumental for engaging Member Countries to focus on: achieving the SDGs, especially in low-income countries; improving the sustainability of energy supply and rationalizing energy consumption; reducing energy waste and leapfrogging to environmentally friendly technologies to meet demand and to transition to sustainable energy development; and developing reliable and up-to-date energy-sector data and information management systems.

IsDB's Energy Sector Policy will focus on a small number of carefully selected activities to establish the Bank as a recognized partner and exchanger of high-quality knowledge with Member Countries.

These policy pillars are well-aligned with the core targets of SDG7. Implementing the pillars will also contribute to achieving the other 16 SDGs, as energy is interconnected with 125 of the 169 SDGs targets (74%). This makes it crucial for all societies to recognize the key interlinkages of energy with the wider development agenda.

19. The following are the four main enablers to stimulate this Energy Sector Policy.

(i) **Private-sector development.** Recognizing its growing role in the development arena, there is a pressing need to support the private sector to boost economic growth in Member Countries. Greater involvement of the private sector in energy development will be encouraged as a result of:

- the majority of public-sector energy entities lacking the financial means to develop the infrastructure and often the management skills to operate existing projects; and
- many governments lacking the financial resources even to focus on the basic needs of the poor and on social sectors such as education and health.

This context requires IsDB to have proper intervention frameworks to develop, promote and enable private sector leadership.

(ii) **Innovative financing.** The focus on climate change, energy efficiency and renewable energy will require a major increase in concessional or soft-term financing, even in middle-income countries. The Bank will identify opportunities for developing effective and innovative cooperation models with partner development institutions through thematic programmes for energy poverty, sustainability and so on. This includes creating innovative financing and leveraging opportunities by establishing climate

financing architecture with external partners. This may include resource-mobilization opportunities and mechanisms – for example, crowdfunding and the mapping of climate funds and donors.

- (iii) **Regional energy integration.** As an institution of South–South cooperation, IsDB intends to assess its past experience to become more intensively involved in regional initiatives, especially those that include landlocked Member Countries. IsDB can take the lead in promoting and facilitating the regional integration of energy systems. IsDB has a clear advantage in some areas, with a unique position to extend regional cooperation between Member Countries, especially in solar energy. A large part of the Bank’s constituency is in the high solar irradiation zone. IsDB’s focus on regional collaboration will promote the synergies and efficiencies that can stem from economies of scale and from the large scope of the major renewable energy programmes of individual Member Countries, which have often been developed in isolation.
- (iv) **Building partnerships.** IsDB supports building stronger partnerships with other multilateral and bilateral development institutions during the implementation of the policy while preserving IsDB’s comparative advantage as one of the major South–South financing institutions. The Bank will further build on its partnerships with international institutions specialized in the energy field, to benefit from their experience and guidance in areas where the Bank is developing more strength (such as renewables, energy efficiency, off-grid electrification, energy poverty, sector policy work).

Guiding principles

- 20. The three guiding principles of this Energy Sector Policy, explained in more detail below and shown in Figure 1, are as follows:
 - (i) **Country-focused selectivity.** IsDB has decentralized operational staff positions and decision-making authority to subregional hubs in Member Countries. Greater country presence will raise staff knowledge of countries’ contexts and needs, make it possible to have enhanced energy-sector dialogues with Member Country governments and enable the Bank to provide in-country support quickly to executing agencies and project-management units to help with addressing implementation problems.
 - 10YS and P5P call for greater selectivity in determining future financing operations, taking into account country needs and the sustainability criteria adopted by MDBs and

other development partners. This selectivity will ensure the relevance of future energy-sector operations to priority development challenges and take into account changing Member Country circumstances. This process will help IsDB to build the capabilities of its energy practice around the four strategic pillars outlined in item 18 above.

- (ii) **PPPs and Islamic finance.** IsDB will expand its support for private-sector energy projects and PPPs that take into account country circumstances and the need for the prudent management of risks. IsDB will explore opportunities for financing PPP investments in energy in Member Countries with conducive policies and appropriate legal frameworks, institutional capacity and governance. These will focus on energy sub-sectors that are well suited to PPP arrangements. IsDB will also assist Member Countries to strengthen their policy frameworks and institutional capacities for energy PPPs, with a view to improving the basis for future PPP investments.

IsDB will explore options to attract additional Islamic co-financing for energy projects, including from private-sector Islamic commercial banks and pension funds, in addition to working with its traditional co-financing partners among MDBs and members of the Arab Coordination Group.

IsDB will also examine options to diversify the Islamic financing instruments it uses for energy operations, with a view to lowering transaction costs and preparation time, and streamlining implementation. It will explore Sharia-compliant approaches to the multi-tranche financing of large programmes that comprise a series of investments of similar type.

- (iii) **Capacity and advocacy.** IsDB recognizes capacity and knowledge as a fundamental underpinning of its energy operations. Such recognition will strengthen its internal capacity to harness sector knowledge and best practice, incorporating these into the scope of approved energy projects to enhance the quality and value added in the Bank's support to Member Countries.

To support its role in enhancing sector capacity, IsDB will: selectively establish additional knowledge partnerships with centres of excellence in priority fields of energy; conduct workshops and conferences – including South–South events – to discuss and disseminate the latest knowledge on key topics strategically relevant to future energy operations; and develop learning activities, such as short training workshops, to augment staff knowledge on technical subjects relevant to future energy operations.

IsDB will assist Member Countries to selectively introduce new and innovative types of energy operation to address changing needs and improve energy sustainability.

IsDB will continue to participate in the MDB working groups on sustainable energy and other relevant global energy initiatives, through which it plays a unique role in assisting the implementation of the global energy development agenda in Member Countries.

Roles and responsibilities

21. The main roles and responsibilities of parties involved with this policy are defined by the four enablers needed to support the implementation of this policy. To strengthen energy-sector dialogue and support country-focused selectivity in each Member Country with IsDB energy operations, IsDB will prepare a Member Country energy-sector note to summarize the sector situation, needs and priorities for IsDB support. The preparation and updating of these notes will be aligned with annual country programming and the preparation of Member Country partnership strategies.
22. This policy requires IsDB to constantly monitor its own performance in support of the energy sector. The policy needs to gauge how well the investments in the sector are contributing to progress in Member Countries, and IsDB will facilitate the formal evaluation of this performance.
23. This Energy Sector Policy recognizes that country circumstances will change and allows for country groupings and priority types of operation to be amended if needed.

Related policies

24. This policy seeks to align IsDB energy-sector operations with the related global priorities for energy set by the SDGs, and with 10YS and P5P as well as the changing needs of Member Countries.



