Gambling with the planet’s future?
World Bank Development Policy Finance, ‘green’ conditionality, and the push for a private-led energy transition
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This work is part of BWP’s environmental advocacy project aiming to monitor the efforts of the Bretton Woods Institutions in mainstreaming climate change into their mandates. It also seeks to expose and challenge the policies promoted by the World Bank and International Monetary Fund that undermine achieving climate goals and a just transition globally.
1. Introduction: Energy systems reform in an age of global crises

We live in an age defined by global crises. The Covid-19 pandemic exposed a stark divide between the fiscal and policy space of advanced economies and the rest of the world: While Global North countries hoarded vaccines and prioritised economic stimulus to save their economies from collapse, many low- and middle-income countries (LMICs) received limited international support and now face austerity measures. This is exacerbated by a new developing world debt crisis, foreclosing the possibility of public investments needed to achieve the Sustainable Development Goals and avert the worst impacts of the climate crisis. Despite these challenges, advanced economies are backtracking on their development and climate finance commitments, even though these are only a fraction of what is required to address global challenges.

In this troubling context, the argument emanating from the World Bank, other international financial institutions (IFIs), G20 governments, and many think tanks is that ‘there will never be enough public money’ to solve global challenges. This extends to efforts to decarbonise the energy sector in LMICs. In a World Bank report released in April 2023, titled Scaling Up to Phase Down: Financing Energy Transitions in the Power Sector, the Bank advocated for a private sector-led approach to power decarbonisation in LMICs. The report proposed using scarce concessional resources to prepare ‘investible’ projects for private investors noting, “The fact that access and affordability of capital must be addressed simultaneously creates an opening for multilateral development banks to help LICs and MICs (low- and middle-income countries) prepare bankable projects that match investors’ risk-return expectations, while also preparing upstream studies and improving market conditions,” including through power sector privatisation and liberalisation measures.1 A first wave of Just Energy Transition Partnerships (JETPs) in emerging economies has similarly relied on using limited available public financing to attempt to ‘crowd-in’ private investment for the energy transition, with the Bank and other multilateral development banks (MDBs) playing a supporting role in these initiatives. As will be shown in this report, World Bank Development Policy Financing (DPF) – where countries agree to undertake specific ‘conditions’ in exchange for general budget financing in exchange for undertaking agreed conditions, or ‘prior actions’.1 The Bretton Woods Project (BWP) conducted a review of energy sector conditionality in DPF from fiscal years (FY) 2018 to 2023, analysing energy sector-related prior actions that the Bank agreed with borrowing countries during this period. The findings show that during the period in question, the Bank continued to promote neoliberal reforms in the energy sectors of many countries (see Section 4). These reforms included measures aimed at increasing private sector participation, with addressing climate change and decarbonising energy systems forming an increasingly common rationale for these changes.

This shows that DPF forms a key pillar of the Bank’s efforts to catalyse a private-led energy transition in many LMICs – and that it potentially poses a barrier to governments, trade unions and social movements undertaking alternative pathways to energy transitions, in particular ones that are publicly owned. The implications of this reform agenda, embedded as it is in a broader neoliberal turn globally, are far reaching: The electricity sector is the largest source of greenhouse gas emissions globally, and efforts to decarbonise other sectors (including buildings and transport) rely on the ‘electrification’ of fossil-fuel based systems for vehicles, heating and cooling, and more. This could potentially lead to a continued surge in global electricity demand, even as dramatic emissions cuts are required to meet climate goals. Despite a significant growth in renewable energy capacity in recent years, as Christophers (2024) points out, continuing concomitant growth in global energy demand means that – despite the urgent need to reduce emissions – fossil fuels’ share of the global energy mix thus far remains unchanged.

1. World Bank, Scaling Up to Phase Down: Financing Energy Transitions in the Power Sector, April 2023, p. VI. The Bank’s report echoes the findings of Songwe et al. (2022), which argued that financing for the electricity sector transition in LICs and MICs is possible via private financing: Vera Songwe et al., Finance for Climate Action: Scaling up Investment for Climate and Development, November 2022.


1.1 Gambling with the planet’s future? Questioning the evidence for a private-led approach

The private sector-led approach faces significant challenges on at least two major fronts: Firstly, there are reasons to be concerned about the likelihood of the success of this policy paradigm on its own terms, as creating ‘bankable’ green projects in LMICs is far from straightforward. Secondly, aligning the ‘bankability’ of projects (i.e. investor interests) with a just energy transition that puts the rights of citizens in LMICs at its core presents an even greater challenge (as will be explored later in this section).

Indeed, the evidence that a private-led energy transition in LMICs will enable them to meet their climate and development goals is perilously thin, as a growing body of research and – indeed – failed experiments by the World Bank and its MDB peers testifies to. Christophers (2024) makes a compelling case that even in the Global North, the commercial viability of privately-owned utility scale wind and solar projects, which largely rely on commercial debt financing to cover upfront project costs, has to date required significant state subsidies in order to be ‘bankable’ – in other words, to generate sufficiently high ‘expected profits’ to be seen as creditworthy to banks or other investors. As Hayes and Brusseler (2024) note, “Renewable energy – with its profile of high upfront investment costs followed by extremely low operating costs – is acutely sensitive to the cost of capital, with debt usually comprising up to 80 per cent of the financing mix,” adding, “The International Energy Agency (IEA) estimates that a 2 percentage point increase in the cost of capital inflated a solar or wind project’s ‘levelised cost of electricity’ (the average unit electricity cost over the lifetime of an asset) by a staggering 20 per cent.”

In the Global South, attracting investment for renewable energy is considerably more difficult. The IEA (2023) notes, “From 2015 to 2022, advanced economies and China together accounted for nearly 85% of combined wind and solar capacity additions,” while overall investment outside these countries “has been stagnant in real terms since 2015.” These challenges are now even more acute, as the cost of capital for renewable energy projects has become increasingly prohibitive following monetary tightening in the US and other Northern countries central banks in 2022. Avinash Persaud’s research indicates that in emerging economies like Brazil, South Africa, India, Indonesia and Mexico, the average cost of capital for private debt in utility-scale solar photovoltaic (PV) farms stands at 10.6 per cent, significantly higher than the 4.0 per cent in the EU. As noted by Christophers (2024), this disparity poses significant challenges for renewable energy generation projects to achieve profitability, especially without access to substantial public subsidy resources. Thus, in LMICs, which have (deservedly or not) a much higher cost of capital and risk profile, the task of making privately owned renewable energy ‘bankable’ typically requires significant subsidies or guarantees to ensure they return a profit for private investors.

These factors present significant hurdles to the Bank’s approach, which increasingly seeks to unlock private capital for green investments in LMICs. As Advait Arun (2023) argues, “It’s…not clear if governments should attempt to de-risk institutional investors’ portfolios, even when possible”, given the barriers to such entities investing in green projects in LMICs. In essence, there are reasons to be concerned that while efforts to ‘crowd in’ private investors into the power sector transition might result in some isolated ‘success stories’ (i.e. some growth in privately-owned renewable energy capacity in LMICs), it is doubtful that this amounts to a coherent approach to solving the climate emergency, per Arun. Indeed, the European Network on Debt and Development (Eurodad), a Belgium-based civil society network, has cautioned that there is insufficient evidence to support the notion that blended finance approaches championed by the Bank can effectively support the green transition in LMICs at scale. To make blended finance vehicles viable, public funding is currently deployed to stabilise prices in anticipation of investment and to address revenue uncertainty, thereby enhancing projects’ appeal to private finance. However, to cite just one high-profile example, in the recently agreed JETPs in South Africa, Indonesia, Vietnam and Senegal, the promised private capital investments have thus far largely failed to materialise, despite lofty targets.

1.2 From structural adjustment to green asset classes: The climate justice implications of the Wall Street Consensus

There are also much broader potential consequences of the World Bank’s support for a private-led energy transition, extending beyond the question of whether the promised finance will ultimately flow. In recent years, the shift towards a private sector-led approach has become more deeply embedded in efforts to ‘crowd in’ institutional investors into development and climate efforts, more generally. This paradigm, dubbed the Wall Street (Climate) Consensus by Professor Daniela Gabor, marks a departure from the Washington Consensus which preceded it in important ways. In effect, developing country governments, and at times MDBs themselves, are re-imagined as de-risking agents for private investors. In advanced economies, such as in the United States with the Inflation Reduction Act of September 2022, industrial policy now involves using public funds to guide the private sector into green ventures, with the aim of enhancing the

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8 Christophers, The Price Is Wrong, p. 115.
10 Farwa Sial, Blended Finance for Climate Action: Good Value for Money?, Eurodad, February 2024.
economy’s green capabilities since public financing is tied to protective measures.14 Conversely, in developing economies, de-risking is not tied to protective measures but rather to (further) liberalisation. Here, governments are encouraged to incentivise private participation, often in the form of foreign investments from firms based in wealthier nations or through the creation of ‘bankable’ project pipelines that may attract institutional investors.15

This reliance on private foreign finance in LMICs, as highlighted in the Transnational Institute’s 2024 report State of Power: Energy, Power, and Transition,16 raises critical questions:

“De-risking has emerged in renewable energy finance as the panacea for mobilising the necessary financial resources for the ecological transformation particularly in the global South. De-risking aims to attract private investment in green infrastructure by offering public risk guarantees, with the ultimate goal of arresting climate change in partnership with international capital....The crucial questions to ask are: Does international finance meet the day-to-day reality of people living close to renewable energy plants? And whose risks are being prioritised in these renewable projects? Those of communities, the climate or the company and financial investors?”

Certainly, this approach carries many risks for LMICs and their populations. Indeed, there is substantial evidence that the “hidden costs” associated with guaranteeing private sector returns over extended contract lifetimes are often passed on to citizens themselves.17

The rising spectre of the climate crisis and lingering questions about the efficacy of the World Bank’s private-led energy reform model have led civil society, academics and trade unions to call for other models of the energy transition. Goodman (2024) claims, “the private-sector model is concentrating corporate power, undermining decarbonisation and dispossessing people of land and power. Yet the energy transition also opens up new possibilities with resistance and mobilisation pointing to a path of social control of renewables”.18 In the case of Trade Unions for Energy Democracy (TUED), this amounts to a ‘public pathway’ approach, involving a radically different vision of the role of the state and public finance in green transitions around the world, compared to the ‘de-risking state’ approach of the Wall Street Climate Consensus.19 In a similar vein, in response to World Bank ‘Evolution Roadmap’ reform discussions in 2023, 74 civil society groups and experts called for the Bank to pivot to a development approach rooted in human rights – long a taboo subject at the institution – and for this to be extended to its approach to the energy transition.20 The civil society groups argued, “the Bank must ensure that climate justice and a focus on green economic transformation are integrated into its approach. This includes supporting publicly-owned clean energy transitions that ensure dividends for developing country governments and citizens, rather than a continued reliance on energy systems privatisation and price liberalisation, which has a chequered record of success, and puts the energy transition in many countries at risk, including in terms of sustained popular opposition to these controversial reforms. The Bank’s approach to Paris alignment must not become a vessel for a new wave of green conditionality that constricts countries’ policy space, including by inducing them into a ‘private sector first’ approach to climate action.”21

As UK-based think tank Common-Wealth has noted, the question is not whether governments will be involved in the green transition, but rather ‘how’ they will be involved, in making the case for a new publicly-owned green energy utility in the UK.22 This urgent debate is what this report invites readers to consider.

This report is structured as follows: Section 2 provides essential background on the Bank’s approach to power sector reform from the 1980s onwards; Section 3 provides an introduction to the Bank's DPF policy instrument; Section 4 presents the methodology and key findings of BWP's review of the World Bank's energy sector conditionality between fiscal years 2018-2023; Section 5 presents grounded case studies in three countries where there were a significant number of prior actions related to the energy sector during the time period of the study, namely India, Rwanda and Colombia; and, finally, Section 6 offers concluding thoughts on the role of World Bank policy lending on the energy sector during a time of crisis.

18 James Goodman, Decarbonising Electricity: The Costs of Private Sector-Led Renewable Energy, and Opportunities for Alternatives in Australia, Germany and India, Transnational Institute, February 2024.
22 Brusseler et al., The Greatest Generation.
Before the ascent of neoliberalism in the 1980s, the Bank largely supported the model of a single national power utility operating as a public monopoly. As Erdogdu (2014) argues, “government ownership of the monopoly (or public regulation) was justified on the grounds that the state was the guardian of the public interest and therefore would be the least likely to act in an opportunistic manner, as monopolists were likely to do. Moreover, ownership by only one firm also helped to ensure the necessary coordination among the different segments of the industry (generation, transmission, distribution and retail supply).”

However, the Bank’s policy advice underwent a radical shift in the 1980s, triggered by the debt crisis sweeping across the developing world. Loans to LMICs, often denominated in US dollars with variable interest rates, meant that any rise in US interest rates would result in a corresponding increase in loan interest. This is exactly what happened in 1980 and 1981 when US Treasury Chairman Paul Volcker raised US Federal Reserve interest rates to 17.6 and 19.1 per cent, respectively, pushing vulnerable countries close to sovereign debt defaults.

In parallel to governments facing escalating financial pressures, the Bank increasingly characterised state-owned enterprises and public utilities in the energy sector as inefficient and loss-making, with many earmarked for privatisation. This approach aimed to reduce the need for fiscal transfers from states to the energy sector and oftentimes to encourage cash-strapped governments to cash-in on public assets by selling them to private buyers. As highlighted by Bacon and Besant-Jones (2001), two energy economists at the World Bank, loan repayment hinged on “immediate revenue for the government through the sale of assets from the sector.” In effect, privatisation stripped away governments’ capacity to ensure affordable electricity provision to their citizens as a public good, as it was deemed too financially burdensome amidst obligations to repay debts.

These dynamics unfolded within a broader development paradigm that became known as the ‘Washington Consensus’, which was practically implemented through a policy package known as the Structural Adjustment Programmes (SAPs). SAPs were enforced by the Bank, along with its sister organisation, the International Monetary Fund (IMF), across LMICs during this period. The SAPs advocated for a singular recipe: Privatise the economy, commodify areas previously in the public domain, eliminate government deficit financing, and dismantle barriers to foreign capital investment and trade, such as subsidies and tariffs.

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26 The drivers of energy sector reform have been described by many authors including Bacon (1995), Bacon and Besant-Jones (2001), Wamukonya (2003), and Joskow (2008).
30 Tricontinental, Life or Debt: The Stranglehold of Neocolonialism and Africa’s Search for Alternatives, 11 April 2023.
2.1 The World Bank power-sector policy paradigm

By the 1990s, the Bank’s privatisation agenda had become a full-blown World Bank power-sector policy paradigm. It was led by the belief that, according to a 1993 Bank policy paper, “the basic sectoral problem relates to undue government interference in those day-to-day organizational and operational matters that should be under utility control,” resulting in issues such as political patronage, which subsequently contribute to accountability deficits, operational inefficiencies, and high losses. To address these challenges, the Bank pursued regulatory and legal reforms, aiming to introduce private sector participation, foster competition, and liberalise energy pricing by eliminating subsidies. This strategy followed a structured approach outlined in Bank documents (as seen in Figure 1).

While the Bank was quick to develop a comprehensive power sector strategy to address endogenous challenges within local developing economies, this approach failed to acknowledge the root exogenous causes of the crisis in the first place (including factors like high debt, exorbitant interest rates, high inflation and declining terms of trade, as the Bank outlines in its 1993 policy paper).

This package consisted of several key components, including the creation of independent regulatory bodies, the division of integrated national monopoly utilities both vertically and horizontally, private sector participation in generation and distribution, and the eventual introduction of competition into power generation and retail services.

The components of this package are defined as follows:

- **Regulation** involving the creation of an autonomous regulatory entity to ensure a degree of political independence within the sector and to hold utilities accountable.
- **Restructuring** involving steps toward the full vertical and horizontal unbundling of the incumbent state-owned monopoly.
- **Private sector participation** including the involvement of private management and capital in the sector to enhance efficiency and stimulate investment.
- **Competition** initially allowing generators to compete for supplying a monopoly utility and eventually enabling customers to negotiate supply contracts directly with power producers and traders, supported by a power exchange.

The measures constituting the Bank’s power sector reform model of the 1990s were seen as mutually supportive and intended for implementation as a package. For instance, privatising state-owned enterprises without prior restructuring would simply replace a public monopoly with a private one. Ultimately, through these reforms, the Bank envisioned a power sector that would pursue public purpose, through the motivator of private profit, with competition or anti-monopoly regulation providing checks and balances.

“According to the Washington Consensus, growth occurs through liberalization, ‘freeing up’ markets. Privatization, liberalization, and macrostability are supposed to create a climate to attract investment, including from abroad. This investment creates growth. Foreign business brings with it technical expertise and access to foreign markets, creating new employment possibilities. Foreign companies also have access to sources of finance, especially important in those developing countries where local financial institutions are weak.”

The theory was that deregulation efforts would attract private investment, promote competitiveness, and ultimately lower consumer prices (see Figure 2).

![Figure 1: World Bank’s power sector reform, conceived as a coherent package of measures to be implemented according to a logical sequence (from Foster and Rana, 2017).](image-url)
2.2 The World Bank’s power sector agenda, 30 years on: A chequered record of success

However, the Bank’s own research suggests that this reform agenda had a chequered record of success. As Foster and Rana (2020) state, “Although the 1990s power sector reform blueprint has demonstrated its ability to deliver in certain country contexts, the results have been quite disappointing in other settings.” Additionally, there have been significant changes in policy objectives since the 1990s, not least with the adoption of Sustainable Development Goal 7 (SDG7) and the Paris Climate Agreement in 2015 “bringing a new focus on electrification and decarbonization, goals that had not been envisaged in the 1990s.”

Academic research also reveals that the 1990s reform agenda was slow to deliver the anticipated impacts. A 2008 global study, partly funded by the World Bank, analysed private sector involvement in electricity distribution and water and sanitation services across 71 developing countries from 1990 to 2002. The study found that while deregulation and private sector engagement led to increased innovation and operational efficiency, to some extent, these changes did not result in lower prices for end users. The study suggested that it, “may be that the private operator reaps all the gains through profits. Given the young regulatory environments in developing countries, which often lack sufficient capacity for supervising service contracts, this is a possibility that needs to be considered.”

Liberalisation exposed local competitors to adversaries from wealthy countries with greater financial stability, often resulting in monopolies controlled by foreign entities. This undermined any potential consumer or development benefits, as these companies often failed to contribute adequate taxes within the countries where they operated. As argued by Stiglitz (2003), “When foreign businesses come in, they often destroy local competitors, quashing the ambitions of the small businessmen who had hoped to develop homegrown industry.” Indeed, the policies imposed by the Washington Consensus on LMICs revealed a glaring double standard: While the Bank and its major shareholders advocated for economic liberalisation and deregulation, advanced economies leveraged strong state intervention, not least government subsidies, trade tariffs, and restricted patents. In effect, neoliberal policies enabled the West to ‘kick away the ladder’ they had once used to scale the heights of development.

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39 Foster and Rana, Rethinking Power Sector Reform in the Developing World, p. 36.
40 Ibid.
3. Development Policy Financing: The Bank’s opaque lending instrument

Originally established in 2004 by merging Sectoral Adjustment Loans (SECALS), Structural Adjustment Loans (SALs), and other instruments, DPF was created to adapt to an evolving global landscape. Unlike its predecessor, SALs, which were heavily reliant on market-oriented reforms dictated only by the Bank, DPF prior actions are said to be mutually agreed between the Bank and governments. In this way, DPF is argued to be a way for borrowing governments to pursue policy agendas reflecting their strategic priorities. However, the extent of country ownership in agreeing prior actions remains unclear, in no small part due to the opaque nature of DPF operations (see below). While the degree of country ownership remains murky, DPF does serve as a way for the Bank to provide relatively rapid lending with comparatively low preparation and execution costs.57

DPF takes the form of credits, loans, grants, or guarantees provided by the International Development Association (IDA), the Bank’s low-income arm, the International Bank for Reconstruction and Development (IBRD), the Bank’s middle-income arm, or the Multilateral Investment Guarantee Agency (MIGA), the Bank’s project insurance arm.48 Between 2015 and 2021, the Board approved $81 billion in DPF financing for 328 operations and 16 supplemental operations, accounting for an average of 26 per cent of the Bank’s overall financing.49 Unlike investment policy financing (IPF), DPF does not allocate finance to specific projects but instead provides ‘fungible’ (i.e. non-earmarked) budget support.50 Each development policy operation (DPO) includes conditions, or ‘prior actions’, in the form of policy reforms (ranging from macroeconomic to sector-specific reforms) – one of the legal conditions for disbursement of funds under DPF.51

A primary criticism of DPF is the absence of clear and robust standards or safeguards policies. Unlike IPF, DPF is not subject to the World Bank’s Environmental and Social Framework (i.e. its environmental and social standards). The Bank has a separate policy for DPOs, which mandates a risk assessment for each operation to determine whether specific policies are likely to result in significant poverty and social consequences.52 To assess these risks, the Bank conducts a Poverty and Social Impact Analysis (PSIA) on prior actions, which is then detailed in the programme information document for each operation.53 The Bank also determines whether the borrower has adequate risk management systems in place.

A 2015 review by the World Bank’s independent evaluator, the Independent Evaluation Group (IEG), found that DPF task teams often misunderstand the term “likely significant effects”, showing that in practice it is frequently interpreted to mean only those policy actions with “direct, short-term effects”.54 Consequently, task teams often overlooked indirect or long-term effects of prior actions. The sequencing of requirements also adds layers of confusion, as the assessment of “likely significant effects” is done before analytical work is started.55

Additionally, the lack of transparency and accountability surrounding DPF, including towards local communities affected by environmental regulation reforms or other groups likely to be impacted by reforms, remains another long-standing criticism.56 While the Bank advises borrower countries to consult and engage key stakeholders, including groups directly affected by operations, work by civil society organisations (CSOs) suggests that the quality of consultations varies significantly because of differences in constitutional and legislative frameworks across countries. This raises concerns about the absence of minimum consultation standards from the Bank. For instance, a 2018 report by US-based CSO Bank Information Center on a land reform DPO in Colombia showed it failed to establish mechanisms to ensure participation of indigenous communities in new institutional arrangements.57

More broadly, concerns persist that DPF continues to serve as a conduit for World Bank conditionality, representing a partial bridge to the policy era of SAPs. A study by Philippines-based IBON International and the Asian Pacific Network found that DPF loans to the Philippines from March 2020 to June 2023 promoted full liberalisation of renewable energy and public services, leading to rural community displacement and civil-political rights repression, liberalisation of renewable energy and public services, leading to rural community displacement and civil-political rights repression, particularly impacting women.58 Similarly, Eurodad’s analysis of 90 Development Policy Operations in 64 countries from January 2020 to April 2021 showed that the Bank’s DPOs during the Covid-19 response entrenched “a way of bringing about change that rests on neo-colonial power dynamics, with international institutions in the global north continuing to occupy developing countries’ policy space,” particularly in terms of promoting private sector involvement in public utilities and state-owned assets, with inconsistent transparency and accountability.59

46 Bretton Woods Project, What is World Bank Development Policy Financing?
48 World Bank Group, Development Policy Financing (DPF), accessed 19 February 2024.
50 Bretton Woods Project, What is World Bank Development Policy Financing?
53 Bretton Woods Project, What is World Bank Development Policy Financing?
54 Independent Evaluation Group, Managing Environmental and Social Risks in Development Policy Financing.
55 Ibid.
56 Bretton Woods Project, What is World Bank Development Policy Financing?
57 Juaneda, Colombia and The World Bank’s Territorial Development Policy Financing.
Given the key role of the World Bank in driving the privatisation and unbundling of energy sectors across LMICs since the 1990s, this report aims to understand how the Bank has influenced energy sector reform in more recent years. To do so, we analysed the energy sector conditions (i.e., ‘prior actions’) tied to DPF loans between FY2018-2023. We used the prior actions database publicly accessible on the Bank’s website, which contains details of all prior actions linked to DPF operations in borrower countries since 2005. The Bank categorises DPF prior actions into eight broader themes, with 863 more specific classifications. To specifically analyse energy sector reforms, our focus narrowed to prior actions labelled ‘862’ (‘Energy Policies & Reform’) within the broader category ‘80’ (‘Environment and Natural Resource Management’).

During fiscal years 2018 to 2023, the timeframe of our study, there were 258 prior actions concerning energy policies and reforms. Reforms were implemented across more than 60 countries (see Figure 3). Of note, certain countries undertook significant energy reforms through multiple DPF loans – Rwanda stands out with the highest number of energy sector prior actions, totalling 22 energy-related prior actions throughout the period (see Section 5).

Additionally, the Bank has significantly increased its climate financing through its overall lending operations, with this amounting to 41 per cent of its total portfolio in FY2023, according to the Bank’s internal reporting. Notably, the Bank has classified a growing number of prior actions in DPF loans as climate finance, arguing that these policy changes further climate action – in line with the Joint Multilateral Development Banks’ climate finance accounting methodology.

For instance, between fiscal years 2018 and 2021, DPF ‘prior actions’ in energy and extractive industries represented $4.3 billion of ‘climate co-benefits’ (i.e., climate finance) according to the Bank’s reporting. However, the Bank does not specify which

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**Figure 3: Distribution of ‘Energy Policies & Reforms’ prior actions, FY18-23**

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60 World Bank, Development Policy Financing (DPF).
61 World Bank, Theme Taxonomy and Definitions, 2016, accessed 24th January 2024.
62 World Bank, Climate Finance Update, 10 October 2023, accessed 14th March 2024.
64 World Bank, 2021 Development Policy Financing Retrospective.
prior actions within each project are tagged as climate finance in its publicly available database, providing only the overall percentage attributed to the entire project in separate disclosures. Recognising this limitation, our analysis also aims to evaluate the Bank’s power sector strategy in light of its increased efforts to align with national and global climate goals.

### 4.1 Methodology

To identify key trends in the 258 energy-related prior actions across borrower countries, our methodology involved categorising these actions within six categories, which we determined based on the World Bank’s energy sector approach since the 1990s and the Bank’s 2021 Development Policy Financing retrospective. These reforms include increasing competition, improving electricity access, financial restructuring (including managing finances, reducing debt, optimising revenue streams, etc.), revising regulatory frameworks (including legal and institutional measures governing energy activities and establishing certain standards, etc.), restructuring (advancing towards the full unbundling of the energy sector), and supporting long-term development or climate strategies (via legislation, targets, and policies). Figure 4 provides detailed definitions of these categories, along with examples from DPF operations.

Figure 4’s classification reflects the authors’ own interpretations and, as such, is only aimed to serve as an initial exploration of trends in WBG energy reform prior actions.

<table>
<thead>
<tr>
<th>Categories</th>
<th>Our definitions</th>
<th>Some examples</th>
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<tbody>
<tr>
<td>Competition</td>
<td>Competition focuses on creating competitive pressures among service providers. In the prior actions, this involves establishing wholesale markets, using competitive bidding, or holding auctions for energy procurement.</td>
<td>2023: The First Resilience and Green DPL in Albania introduced a new marketplace enabling energy suppliers and distributors to trade energy competitively.</td>
</tr>
<tr>
<td>Electricity access</td>
<td>Electricity access involves ensuring communities have reliable and affordable electricity services. In the prior actions, this includes flexible payment options for connection fees, grievance mechanisms to prevent disconnections, and plans to expand electrification coverage.</td>
<td>2023: In Benin, the Second Unlocking Potential DPL, a prior action focuses on improving electricity access by approving a Grid Connection Charges Policy for 2022-2026, aimed at reducing connection costs.</td>
</tr>
<tr>
<td>Financial restructuring</td>
<td>Financial restructuring involves managing finances, reducing debt, optimising revenue streams, and ensuring fiscal sustainability. In the prior actions, this includes clearing arrears, revising tariff structures, or eliminating subsidies.</td>
<td>2019: The First Inclusive and Sustainable Growth DPL in Ecuador involved cutting subsidies for premium gasoline, industrial diesel, and commercial/industrial natural gas, along with reductions in subsidies for other fuels.</td>
</tr>
<tr>
<td>Regulatory frameworks</td>
<td>Regulatory frameworks involve legal and institutional measures that govern energy activities and establish certain standards. In the prior actions, this includes establishing regulatory bodies, adopting contract templates, or implementing safety standards.</td>
<td>2023: The Philippines’ First Sustainable Recovery DPL encouraged foreign investment in solar and wind energy by removing the 40% foreign equity cap on natural resources activities.</td>
</tr>
<tr>
<td>Restructuring</td>
<td>Restructuring involves steps towards the eventual full vertical unbundling of the generation, transmission, and distribution sectors, as well as the horizontal unbundling of the generation and distribution tiers.</td>
<td>2023: In Cabo Verde, the Second Resilient and Equitable Recovery DPL involved ELECTRA divesting from power activities and dividing the sector into distinct entities for generation, distribution, and system operation.</td>
</tr>
<tr>
<td>Supporting long term climate / development strategies</td>
<td>Supporting long-term climate and development policies enacts legislation and policies to achieve climate and development objectives.</td>
<td>2023: In Romania, the Second Programmatic Inclusive and Green Growth Development Plan set a clear timeline to phase out coal mining and coal-fired power generation (this is not observed in any other countries included in our analysis).</td>
</tr>
</tbody>
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65 We filled-in an access to information request through the World Bank’s website, however we are yet to hear back from the Bank at the time of this report’s publication.

66 Foster et al., Charting the Diffusion of Power Sector Reforms across the Developing World; Foster and Rana, Rethinking Power Sector Reform in the Developing World; World Bank, 2021 Development Policy Financing Retrospective.

67 Any errors in the classification of FY 2018 – 2023 ‘Energy Policies and Reforms’ prior actions are the responsibility of the authors.
4.2 Key findings: The Bank is doubling down on energy sector privatisation while pivoting towards climate action

Two main findings can be highlighted from this analysis. Firstly, the Bank’s energy sector conditionalities during fiscal years 2018 to 2023 align closely with the structural adjustment reform agenda of the 1990s power sector paradigm, by continuing to promote the unbundling of vertical and horizontal structures within the power sector to attract private investment and establish competitive wholesale power markets (see Section 2). Secondly, while there is a shift towards climate financing through Bank DPF loans, the policy trajectory remains entrenched within the private sector-led paradigm, suggesting a shift towards a new era of ‘green structural adjustment’ in the energy sector.68

Delving into the details underlying these findings, a classification of prior actions is compiled in Figure 5, which shows that financial restructuring and regulatory frameworks are the predominant categories between 2018 and 2023, constituting 46 per cent and 32 per cent of the total energy policies and reform prior actions, respectively. Additionally, in classic Washington Consensus style, ‘restructuring’ and ‘competition’ also shape many prior actions, focusing on unbundling power sectors and aligning with energy market prices. While there are some prior actions more broadly focused on improving electricity access, this represents a very small percentage (2.4 per cent) of the total included in our study.

Given the significance of financial restructuring and regulatory frameworks in the distribution of the classifications, Figures 6 and 7 provide a detailed breakdown of what they mean for the energy-related prior actions in our analysis. Figure 6 shows that, in the financial restructuring category, most conditions focus on either reducing expenditures, such as through subsidy removals, or increasing revenue, such as through enhancing revenue collection from the population and/or increasing price tariffs – all measures aligned with the Bank’s 1990s power sector reform paradigm (as discussed in Section 2).

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Figure 5: Classification of energy policies and reforms prior actions between fiscal years 2018 to 2023

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68 In 2022, all DPF projects which had some “Energy Policies and Reforms” prior actions saw a portion of climate finance allocation, with an average of approximately 38.5% of the funding designated as climate finance across these projects (based on World Bank internal reporting of its climate finance in fiscal year 2022).
Additionally, there are efforts to reduce risks for private investors, seen particularly in recent years in renewable energy projects. To give some examples, in the prior actions we see prioritisation of private electric generation in Ecuador, the introduction of contracts-for-difference (financial agreements ensuring fixed prices for renewable electricity, thus mitigating producer risk) for renewable energy generation in Georgia, or the revision of feed-in tariffs (government-set rates ensuring fixed prices, typically above market rates, for renewable electricity supplied to the grid) to promote wind power investment in Vietnam. Additionally, in Uzbekistan, the government agreed to enter into foreign currency financial commitments in public-private partnerships concession agreements, providing financial compensation to investors against losses resulting from changes to legislation in force at the time of the partnership agreement. All these measures reduce investment risks associated with renewable energy projects, making them more attractive to private investors and encouraging greater participation in the transition to green energy.69 As alluded to in Section 1, despite the urgent need to transition away from fossil fuels, this raises significant concerns for fiscally constrained borrower nations, as the costs of guaranteeing private sector returns are usually paid out of the public pocket. As an overall trend, most of the financial restructuring prior actions seem to align with the 1990s World Bank power sector agenda, yet the state now plays more of a de-risking role (especially when it comes to renewable energy projects).

69 This is consistent with findings in the RISE report (2022) stating that tax reductions were the primary fiscal incentive for renewable energy in 2021, reflecting the evolving market maturity of renewables: Energy Sector Management Assistance Program, Regulatory Indicators for Sustainable Energy (RISE), 2022.
Figure 7 shows that, in the case of regulatory frameworks, most prior actions revolve around two main aspects: Governance of the power sector (through institutional restructuring and regulatory oversight), and facilitation of private sector involvement in the energy sector with incentives to encourage participation (through private sector involvement and management, rules and standardisation for energy contracts and licenses, and regulatory incentives). To give just a few examples of the latter, these include prior actions enabling hedging and bilateral contracts that protect renewable energy developers from market price volatility in Romania, prior actions amending the Rules and Regulations Implementing the Renewable Energy Act to remove the 40 per cent foreign equity cap on exploration, development, utilisation and commercialisation of natural resources in the Philippines, and establishing guidelines on foreign currency denominated power purchase agreements in Nepal. While there are also some actions focused on off-grid energy policy and development, mainly in Rwanda’s electricity-focused DPF (see Section 5), these only account for 4.9 per cent of the overall regulatory frameworks category, a small proportion compared to other areas.

Figure 8, a heatmap showing the distribution of categories across borrower countries, provides a visualisation of the distribution of each category of energy-related policy conditionality individual countries undertook during the period of the study.
It is evident that in many countries these measures mark a continuation of previous World Bank-led reforms. This becomes clear, for instance, in the category of ‘restructuring’, where instances of vertical and horizontal unbundling of national monopoly utilities still occur, particularly in cases where countries either have not yet fully unbundled their energy sectors or have re-nationalised them due to failed privatisation efforts in the past. For example, in Cabo Verde, a few restructuring actions focused on unbundling the state-owned Empresa de Electricidade e Água da Praia (Electra, Electricity and Water Company of Praia) after the government repurchased 51 per cent of its shares in 2006 due to private investors, predominantly from the Global North, withdrawing their investments. Similarly, in the Dominican Republic, although a wholesale competition model was established in 2001, a dispute between the government and private operators resulted in challenges, including a banking crisis that hit the country in 2003, causing the government’s debt to increase significantly, leading to economic instability and prompting the government to freeze electricity prices. Consequently, private companies faced financial difficulties, leading to the departure of a major Spanish power company, Unión Fenosa, from the market. Likewise, Indonesia has maintained a ‘state monopoly plus independent power producers’ model since 1995, while Nepal underwent partial vertical unbundling in 1995 and has remained a single buyer model since. In summary, our analysis confirms the Bank continues to prioritise a private sector-led approach to energy sector conditionalities, echoing its strategy from the 1990s and making clear that the Washington Consensus-era reform agenda is alive and well.

70 Foster et al., Charting the Diffusion of Power Sector Reforms across the Developing World.

71 The Economist Intelligence Unit, The Future of the Electricity Sector in the Dominican Republic, 2015

72 The Indonesian energy sector is shifting towards private sector involvement in renewable energy, exemplified by the prior action in the 2021 DPF on 'Investment and Trade Reforms' which removes the requirement for transfers ring ownership of renewable energy plants to the state-owned electricity company PLN. However, this trend faces opposition from local civil society, including Indonesian trade unions, who argue for preserving PLN’s role and public control over essential services.
Case study 1: Promoting private sector participation in India’s energy transition

The World Bank approved a $1.5 billion development policy loan to India in late June 2023, known as the First Low-Carbon Energy Programmatic Development Policy Operation, envisaged as the first of two DPOs to further aid India’s green transition. The Bank’s press release emphasised the role of the DPO in advancing India’s green hydrogen strategy, stating, “The financing required to implement India’s energy transition is such that public sector funding alone will not be sufficient. Building on recent successes, this operation will help stimulate private financing and other support by addressing viability funding gaps, reducing off-taker risks, boosting grid integration of renewables, and stimulating demand for renewable energy.” The loan includes nine ‘prior actions’ designed to help achieve these aims.

The first three prior actions in the 2023 DPO focus on implementing India’s National Green Hydrogen Mission, approved in January 2023, by introducing relevant standards and regulations and de-risking measures for private investors. However, the potential future cost to the state, and therefore taxpayer (of guaranteeing off-taker amounts), is unclear. Prior actions 4 and 5, meanwhile, focus on mandating that higher levels of renewable energy (RE) be purchased, and creating market-based mechanisms for energy storage. Prior action 6 follows in a similar vein, calling for the “implementation of regulation to guide the bidding of 50 GW of RE capacity, including solar PV, wind, and firm power from RE and energy storage, each year from FY23-24 to FY27-28.” This is seen as being instrumental to reaching the national goal of 500 GW of renewable energy capacity by 2030, according to the project document. The DPO also calls for a strategy to expand offshore wind auctions, and to remove supply chain bottlenecks related to solar PV. Finally, it includes a prior action focused on the creation of a national carbon market, by ensuring “the Ministry of Environment, Forestry, and Climate Change (MoEFCC), has approved GHG mitigation activities, including green hydrogen, green ammonia, RE with storage, and offshore wind, to be eligible for [the] international carbon market to mobilize international financing under the Paris Agreement.”

The World Bank also previously agreed a $250 million development policy loan focused on a series of market-based reforms in Rajasthan’s electricity sector, in 2018, which also falls within the

<table>
<thead>
<tr>
<th>Project name</th>
<th>Location</th>
<th>Sponsor</th>
<th>Sponsor country</th>
<th>IFC financing</th>
</tr>
</thead>
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<tr>
<td>Azure Clean Rajasthan-40 MW</td>
<td>Rajasthan</td>
<td>Azure Power India</td>
<td>India</td>
<td>IFC (Loan / $14 Million / 2015)</td>
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<td>Actis</td>
<td>United Kingdom</td>
<td>IFC (Loan / $30 Million / 2016), IFC (Syndication / $62 Million / 2016)</td>
</tr>
<tr>
<td>Ostro AP Wind Project</td>
<td>Andhra Pradesh</td>
<td>Actis</td>
<td>United Kingdom</td>
<td>IFC (Loan / $31 Million / 2016), IFC (Syndication / $62 Million / 2016)</td>
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<tr>
<td>Mahindra’s 250 MW solar plant</td>
<td>Bhive, keon Village</td>
<td>Mahindra Susten</td>
<td>India</td>
<td>IFC (Loan / $36 Million / 2020)</td>
</tr>
<tr>
<td>FRV Andhra Pradesh Solar Farm I</td>
<td>Andhra Pradesh</td>
<td>Fotovoltaic Renewable Ventures (FRV)</td>
<td>Spain</td>
<td>IFC (Loan / $43 Million / 2017)</td>
</tr>
<tr>
<td>FRV India Solar Park III</td>
<td>Andhra Pradesh</td>
<td>Fotovoltaic Renewable Ventures (FRV)</td>
<td>Spain</td>
<td>IFC (Loan / $44 Million / 2017)</td>
</tr>
<tr>
<td>Ratlam 170 MW Windfarm Development</td>
<td>Madhya Pradesh</td>
<td>Continuum Wind Energy</td>
<td>Singapore</td>
<td>IFC (Loan / $50 Million / 2015), IFC (Syndication / $30 Million / 2015)</td>
</tr>
<tr>
<td>Rewa Actis Solar Park</td>
<td>Madhya Pradesh</td>
<td>Actis</td>
<td>United Kingdom</td>
<td>IFC (Loan / $10 Million / 2017), IFC (Syndication / $90 Million / 2017)</td>
</tr>
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<td>WRE Bhadra Solar Farm</td>
<td>Bhadra, Rajasthan</td>
<td>Infos Group</td>
<td>India</td>
<td>IFC (Loan / $10 Million / 2019)</td>
</tr>
<tr>
<td>Mahindra Solar Power Plant</td>
<td>Rewa district of Madhya Pradesh</td>
<td>Mahindra Susten</td>
<td>India</td>
<td>IFC (Loan / $51 Million / 2018)</td>
</tr>
<tr>
<td>Green Infra Wind 218.4 MW Portfolio</td>
<td>Rajasthan, Maharashtra, MP, Gujarat</td>
<td>Green Infra Wind Energy Limited</td>
<td>India</td>
<td>IFC (Loan / $55 Million / 2015)</td>
</tr>
<tr>
<td>ACEC Jaguar 256MW Solar Power Plant</td>
<td>Madhya Pradesh</td>
<td>ACERS Group</td>
<td>India</td>
<td>IFC (Loan / $61 Million / 2018)</td>
</tr>
</tbody>
</table>

Table 1: IFC investments in India-based energy power purchase agreements, 2015-2018 (source: WBG PPI database)

74 World Bank Group, World Bank Approves $1.5 Billion in Financing to Support India’s Low-Carbon Transition, 29 June 2023.
timeframe of the study. According to the World Bank’s Private Participation in Infrastructure database, the World Bank has also provided complementary investment in India’s energy sector in recent years, including through the International Finance Corporation (IFC), its private investment arm, which invested $515 million in loan financing across 12 solar and wind projects between 2015-2018 (see table 1). This has helped to reinforce the IPP-led power generation typical in India’s regional energy markets.

Wider implications of WBG green conditionality in India

As documented by the Centre for Financial Accountability (CFA), India’s current development model relies on intensifying infrastructure projects across the country, exacerbating existing issues around competing claims for land. In a recent report assessing the impacts of the large-scale Bhadla Solar Power Park in India, where IFC is a co-investor, CFA noted: 77

“The proliferation of large-scale solar infrastructure projects across India... [has] been facilitated and funded by international financial institutions such as the World Bank, IFC, the Asian Development Bank, AIIB, and other multilateral financial institutions. However, the development of solar parks on previously underutilised rural lands has not unfolded without consequences. These endeavours have disrupted the existing agrarian political economy, leading to significant shifts in labour relations and labour geographies. These alterations to traditional livelihoods have the potential to exacerbate the climate and social vulnerabilities of rural peasants. As their livelihood options dwindle, many are left with little choice but to migrate to urban areas in search of employment opportunities, where they become all the more vulnerable to the direct and indirect effects of climate change.”

Added to this, energy from solar parks largely bypass ‘peripheral areas’ where they are sited, to serve electricity-hungry urban centres, adding to issues of uneven development. These factors could be exacerbated under the 2023 DPO’s push for green hydrogen (GH). The impact assessment in the DPO notes, “There are substantial risks associated with land acquisition, involuntary resettlement, occupational and community health and safety, and reduction of freshwater availability related to GH production.” 78 The DPO notes that consultations with prospective private sector investors in green hydrogen revealed that they hope to site these projects near urban centres, owing to the high cost of transport of hydrogen but cautions, “these centers are also highly urbanized, with water demands.” 79

Beyond this there is a question about the fiscal logic of crowding in the private sector into India’s energy transition, given the considerable subsidies required by the state to ensure profitability. As shown in Table 1, the Bank’s investments, through IFC, aim to expand the model of privately-owned independent power producers. Evidence suggests this often entails significant contingent liabilities for the public purse, guaranteeing profits for the private sector while foregoing potential revenue from publicly owned green energy assets. 80 As argued by the Trade Unions for Energy Democracy, 81

“In India and elsewhere, the policy has been to guarantee profits to private-sector IPPs while shifting the system costs over to the often still-public transmission and distribution companies, thus incurring more debt for the latter. In India’s case, the discoms are expected to provide services to poor people that, in many instances, have little capacity to pay. Voices urging further privatization call for the discoms to stop providing free electricity to rural dwellers and to introduce pre-paid meters.”

Additionally, analysis produced by the Task Force on Climate, Development and the IMF indicates that Indian states will face dwindling fiscal resources due to a decline in fossil fuel revenues during the transition to green energy. 82 This could present further significant challenges, particularly in debt-laden states, to achieving a private-led green transition.

79 The DPO seeks to mitigate these risks, noting. “The World Bank will provide TA to mitigate environmental and social risks, including GIS mapping to identify GH hubs that will exclude environmentally and socially sensitive areas, and an assessment on desalination of water for GH production.”
82 Laveesh Bhandari and Aashneerwal Dwivedi, Critical Challenges in Realizing the Energy Transition: An Overview of Indian States, Task Force on Climate, Development and the International Monetary Fund, October 2022.
Case study 2: Rwanda and the perils of the ‘ease of doing business’ reforms

During our study period, the Bank signed three consecutive energy DPOs with Rwanda: The first in 2018, second in 2019, and third in 2020, each worth $125 million.83 This series aimed to restructure Rwanda’s electricity sector, which was facing a fiscal crisis. This series of DPOs built upon the Bank’s extensive previous engagement in Rwanda’s energy sector – it holds a prominent position in Rwanda as a strategic partner of the government, actively contributing to the formulation and review of sector reform programmes, as well as supporting ongoing investments in sector expansion.84

The dark side of relying on private investors

The current fiscal crisis in Rwanda’s energy sector finds its roots in restructuring efforts initiated in 2010, heavily influenced by the Bank and its 1990s strategy. The objective was to overhaul the power sector by streamlining operations and increasing private sector involvement, effectively transitioning it to a privatised model of electricity generation albeit with the publicly-owned Rwanda Energy Group (REG) maintaining a monopoly as the off taker.85 Since then, all major power projects incorporated independent power producers (IPPs) through bilaterally negotiated deals – attracting private investments from over 20 independent producers. For instance, ContourGlobal, a US-based company, received assistance from an African Development Bank loan for the ‘KivuWatt’ project in 2011, while Scatec, a Norway-based company, secured financing from the Emerging African Infrastructure Fund, a London-based fund, for the ‘Agahozo-Shalom Youth PV Solar Plant’ project in 2014, according to the World Bank’s public-private infrastructure database. This influx of private investment had impressive results – electricity generation capacity increased from 76 MW in 2010 to 213 MW by June 2017, with over 50 per cent of it privately owned.86

However, these power purchase agreements (PPAs) were not without significant drawbacks. To attract private capital, the government implemented extensive de-risking strategies, such as tax breaks and import tariff exemptions.87 These deals, while enticing, came with a high price tag, locking the country into 25-year agreements where REG was obligated to pay for 90 per cent of available power, irrespective of actual demand, via take or pay contracts.88 The negative impacts of these PPAs were exacerbated by lower-than-expected demand. Current projections indicate that Rwanda will require between 282 MW and 376 MW by 2024, including a 15 per cent reserve margin.89 Meanwhile, new national and regional hydropower projects will add a capacity of 346.2 MW once installed, bringing the total capacity to at least 465 MW. However, with insufficient demand, thus far Rwanda’s PPAs have drained public energy sector resources – leading to excessively high tariffs (averaging $0.28 per kWh in 2017-2018, among the highest in the region) making electricity unaffordable for many.90 By the end of 2019, the national electrification rate only stood at 51 per cent, despite the newly generated energy.91 Moreover, the high tariffs made selling excess power to neighbouring countries difficult.92

To address the financial strain caused by high energy costs, the government resorted to high budget transfers – for instance transferring $57 million in fiscal years 2015-16.93 Subsidies for electricity, initially budgeted at 1.4 per cent of GDP in FY2017-18, were projected to increase to over 4 per cent of GDP by 2020, as per preliminary findings from the draft Least Cost Power Development Plan (LCPDP).94 As noted by a donor official cited in Chemouni and Dye (2020’s) paper, “such oversupply compounded by expensive-tariff agreements, amount to the government ‘digging a fiscal hole.’”95

The World Bank to the rescue?

In this context, the World Bank deployed three DPOs between 2018 and 2020 to mitigate Rwanda’s fiscal crisis. The DPO series aimed to reduce the fiscal strain on the sector, transition from ad hoc bilateral negotiations to competitive procurement, and increase private sector participation in transitioning to low-carbon energy and reforming electrification programmes to incorporate private sector assistance for mini-grids and off-grid solar programmes.96 Together, the three DPOs amounted to 29 prior actions, with 22 tagged as ‘energy policy & reforms’.

84 Ibid.
85 Ibid, p. 2
86 Ibid.
93 World Bank, Rwanda Energy Sector Development Policy Loan.
94 Ibid.
95 Chemouni and Dye, The Contradictions of an Aspiring Developmental State.
96 World Bank, Rwanda Energy Sector Development Policy Loan.
The DPOs appear to be doubling down on the same private sector-led approach. Most prior actions are geared towards continuing to prioritise private-sector financing in generation, with all new generation investments pursued as IPPs, except for multi-purpose dams.97 This approach now extends to off-grid solutions, where the private sector is expected to play a key role due to perceived financial unviability of government intervention. For instance, efforts to attract private sector participation include initiatives by the Rwanda Utilities Regulatory Authority (RURA) to simplify the licensing framework for mini-grids, eliminating the need for off-taker agreements with the public sector (Prior Action 3.7 in the 2020 DPF), as well as ongoing efforts to standardise PPA clauses and risk allocation matrices for future independent power producers (Prior Action 3.3 in the 2020 DPF). Indeed, at the time of the 2020 DPO, Rwanda was still hugely incentivising the private sector, and ranked 2nd in Africa for ‘ease of doing business’ (according to the World Bank’s now-discontinued Doing Business rankings98) – offering incentives like power purchase agreements, transmission access, infrastructure support, tax exemptions, and land provision or compensation.99

The attention given in the DPOs to the trade-offs associated with ‘de-risking’ relatively expensive PPA deals, compounded by electricity oversupply, appears inadequate, despite recognition of the oversupply problem in programme documents. While some measures have been taken, such as de-prioritising two major plants and several smaller ones that were in the pipeline (115 MW in total) while purchasing contracts are renegotiated100, there is a lack of action to terminate existing expensive agreements – possibly related to the threat of Investor-State Dispute Settlement cases this might pose, where plants that have foreign investors can potentially sue the government for lost future profits under trade agreements (a risk which is not explicitly considered in the DPF impact assessments for Rwanda’s DPFs). Furthermore, the only proposed solution to prevent similar costly PPA deals in the future is mandating competitive procurement in the 2016 Public-Private Partnership (PPP) Law.101 However, the law still allows for ‘unsolicited’ proposals in certain cases, in instances “where continuity in infrastructure provision is urgent, competitive procurement may not be in the national interest, national security matters are at stake, the service required is a monopoly, or there is minimal private sector interest in investing in essential infrastructure” – potentially allowing for the continuation of costly, non-tendered agreements.102

To compound concerns, tariffs – i.e. the price or rate charged to consumers for their electricity usage – were increased, possibly to alleviate fiscal strain on the sector, which would effectively shift the burden of PPA costs to Rwandan citizens. This measure boosted REG’s revenue by Rwandan Franc 1 billion per month.103 Despite a tariff reduction for low-income households, most of the population still bears the brunt of expensive PPA deals benefiting private investors, many of whom are from the Global North. And yet, these are still ongoing – for instance, in 2023, ARC Power Rwanda Limited, a subsidiary of a company based in the United Kingdom, forged a Strategic Power Partnership Agreement with the Rwandan government, backed by a MIGA guarantee against the risk of Breach of Contract for equity investments amounting to $10.0 million for a period of 10 years.104

98 The Doing Business rankings were discontinued in 2021, after it emerged that in some instances WBG staff had manipulated individual countries’ scores. See Bretton Woods Observer, Global civil society achieves significant victory as World Bank discontinues contentious Doing Business Report, Autumn 2021.
102 Ibid.
Case study 3: The World Bank’s energy sector conditionality in Colombia

In the period FY18 to FY23, the Bank issued three Development Policy Loans to Colombia related to energy conditionality, a $500 million “Sustainable and Resilient Infrastructure” DPO in 2021, a $750 million “Equitable and Green Recovery” DPO in 2022, and a $1 billion “Green and Resilient” DPO in 2023.105 The key milestones for Colombia agreed across these three DPOs are summarised as “the development of an attractive regulatory and fiscal framework for the promotion of new energy generation projects, the development of roadmaps for hydrogen and for the incorporation of offshore wind energy, the formulation of the National Energy Plan, [and] the enactment of the Energy Transition Law.”106 The loans included 28 prior actions, with seven tagged as ‘energy policies & reforms’, to help achieve these goals.

Of note, one of the prior actions in the Colombian DPF is the adoption of the “Policy for Energy Transition” as prior action 1 in DPO 2023. The policy emphasises increasing energy security, promoting cleaner technologies, diversifying economic activities, and reducing GHG emissions and environmental impacts. It also allocates resources for training programs to develop skills for clean energy jobs and supports the reskilling of workers in the fossil fuel industry for a just transition.

Otherwise, many of the other prior actions promote a private sector-led approach. There are various prior actions focused on renewable energy auctions. Prior action 4 in the 2021 DPO focused on introducing mechanisms to promote long-term Non-Conventional Renewable Energy (NCRE) PPAs through double-sided auctions (a bidding process involving both buyers and sellers to facilitate the purchase and sale of renewable energy). Similarly, prior action 5 in the 2022 DPO aimed to adopt a more efficient and competitive mechanism for awarding long-term electricity generation purchase agreements for NCRE projects. Auctions are viewed as a key means to increase renewable energy development; however, the potential future cost to the state, and therefore the taxpayer, remain unclear. De-risking measures are currently being deployed at scale to attract private investors. An initial auction in February 2019 failed due to low interest and competition.107 As such, adjustments for an October 2019 auction were made which included reducing commitment bonds, extending PPA contracts to 15 years, and mitigating transmission risks through a grace period.

Transitioning from take-and-pay to take-or-pay contracts was also a significant change, ensuring buyers pay generators regardless of consumption.108 These changes persist in current auctions, highlighting the government’s role in shouldering risks to ensure a stable business environment, despite potential challenges from financial strain.109

In prior action 4 in the 2022 DPO, the Colombian government approved an Energy Transition Law which supports increased use of NCRE, low-carbon hydrogen production and use, and incentivises greater demand for energy efficiency. The Energy Transition Law introduced key regulatory changes to incentivise private investments: 1) it included a provision allowing income taxpayers investing in energy production with NCER to deduct 50 per cent of the total investment from their income tax liability over a maximum period of 15 years, 2) a VAT exclusion on project-related goods and services, and 3) tariff incentives for importing necessary goods. The law also established a registry for geothermal projects, outlining rules for exploration and exploitation activities. Furthermore, it amended procedures for approving electricity projects by prioritising those expected to start within two years. It empowered judges to grant access to land for transmission lines without extensive court inspections and allowed landowners to facilitate project implementation without legal proceedings.110 The tax incentives of the law are further evidenced in prior action 2 of the 2023 DPO. As stated in the Bank document, “These regulations are expected to provide additional incentives for the private sector to invest in energy efficiency and low-carbon hydrogen projects, supporting private capital mobilisation needed to decarbonize Colombia’s primary energy matrix.”111

Furthermore, in prior action 3 of the 2023 DPO, with the aim of further accelerating the deployment of NCRE, the government defined rules and regulations for temporary seabed leasing and long-term concessions for offshore wind and geothermal renewable electricity generation, to encourage greater private sector participation. In particular, the measures aim to make technical and financial authorisations more flexible. In the short-term, the leasing process announced through this resolution will assign offshore wind developers the exclusive right to explore the potential of a limited set of areas of Colombia’s Caribbean coast and, if conditions are right, later exploit these resources through a concession, reducing uncertainties for developers and allowing them to make the long-term investments needed in this industry.

106 World Bank, Colombia Green and Resilient DPO.
108 Ibid.
109 World Bank, Colombia Green and Resilient DPO.
110 CMS, Energy Transition Law - Main Aspects and Regulatory Developments, August 2021.
Private-led energy sector reform: A just transition?

The de-risking approach to drive the green transition, via employing incentives linked to auctions, taxes and exploitation rights, respectively, primarily favours private corporations from the Global North. This trend is evident in the winners of Colombia’s third renewable energy auction in 2021, which included companies such as EDF Renewables (France), Canadian Solar Inc., TW Solar (UK), Solarpack (Spain), and Enel (Italy), according to the Private Participation in Infrastructure database of the World Bank. This model raises concerns about state liabilities and the entry of Northern companies for profit extraction, perpetuating unequal exchange dynamics.

Doubts persist about the effectiveness of a private sector-led model in driving the green transition and achieving a just transition, particularly regarding worker rights and land ownership for people living on the land where these projects are built. The Ministry of Mines and Energy in Colombia can declare renewable energy and hydrogen projects, along with associated infrastructure, as being of public interest, allowing the government to enforce eminent domain over private property if conditions are met. Regarding private property, landowners are offered market value, but if they decline, eminent domain can still be enforced by the government. In Bank programme documents, despite acknowledging “potential social risks,” both the government and the World Bank argue that Colombia’s legal framework “sufficiently covers the potential social impact on communal land belonging to indigenous peoples, Afrodescendants, and displaced victims of the conflict,” through prior consultation, certified existence of indigenous reservations and collective property of ethnic groups, and the register of forcibly abandoned or dispossessed land.112

Nonetheless, privately owned renewable energy projects are increasingly linked to conflicts over land in Colombia, as demonstrated in a handful of recent high-profile cases. This includes Enel’s efforts to construct Colombia’s largest solar park near La Loma, adjacent to abandoned mines in La Jagua.113 This initiative has sparked resistance among residents who feel they have not been adequately informed or consulted about the project’s scope and potential benefits, according to media reports.114 Many renewable energy projects in Colombia are also underway in the La Guajira region, which is highly contested due to its indigenous population, including the Wayúu people. The Wayúu have consistently opposed such projects, citing human rights violations and lack of transparency. Community-led resistance acts as a warning sign for private investors, signalling potential delays in operations and hindering the reliability of profit streams. This could be one of the motivating factors for the government to adopt more flexible land acquisition policies.115

There are also underlying tensions between the World Bank-led reforms in the DPF reforms and Colombia’s ongoing efforts to steer its state-owned oil company, Ecopetrol, away from fossil fuels. This tension is especially apparent in debates over the role of the public sector in the energy transition. In 2023, Colombia made history by becoming the first major Southern oil and gas producer to join the Beyond Oil and Gas Alliance, in line with an electoral pledge from Gustavo Petro’s government to cease issuing new oil and gas concessions. For Ecopetrol to pivot towards green investments, previous neoliberal-style reforms must be repealed. According to Chavez and Peñaranda (2024: 73), “The Plan Nacional de Desarrollo (National Development Plan) 2022–2025 passed at the beginning of the current administration laid the groundwork for Ecopetrol to become an integrated energy company by repealing key articles in former legislation that forced unbundling and prevented the functioning of vertically integrated energy companies”.116 Ironically, as discussed elsewhere in this report, these efforts run counter to the World Bank’s dominant policy advice in the energy sector, as well as the wider global trends discussed in Section 1, as electricity sectors globally have increasingly trended towards both vertical and horizontal unbundling, rather than integration.

113 Enel, El proyecto solar La Loma, el más grande que se construye del país, presenta un avance del 70%, accessed 16 March 2024.
6. Conclusion: Global crises require a rethink of the World Bank’s approach to energy sector conditionality

As this report has shown, the World Bank’s energy sector conditionality remains devoted to increasing private sector participation in energy sectors around the world, with this being increasingly viewed as a means of decarbonising fossil-fuel dependent energy systems. However, as explored in Sections 1 and 2, this approach faces a series of hurdles and trade-offs. As Christophers (2024) notes, the difficulties associated with creating ‘bankable’ renewable energy projects financed by commercial debt are potentially putting global climate goals at risk. Christophers poses the question: “is it likely that renewable power will be developed as rapidly and expansively as the world needs, if it becomes more and more a political-economic constellation comprising strictly profit-seeking private actors and free market mechanisms?”

Even if such an approach was possible, the trade-offs for LMICs appear harsh, given wider South-to-North financial flows that continue to undermine many countries’ attempts at economic transformation. As noted in the 2023 report, Just Transition: A Climate, Energy and Development Vision for Africa,

“Government subsidies, tax-cuts and weak regulations to attract transnational corporations...result in a race to the bottom for African and other developing countries. Compounded by tax evasion, the result is a deluge of wealth transfer from Global South to North — upwards of USD two trillion per year.”

The Just Transition report argues that given these wider extractive trends in the global economy, it is vital to design an energy transition in the South that reverses, rather than deepens, these extractive financial flows. It urges African governments to pursue a pan-African approach to energy sovereignty, based on African ownership – and facilitated by technology transfer, systematic cancellation of debt, and increased non-debt creating forms of financing, including grants, concessional finance and – where appropriate – IMF Special Drawing Rights. Its findings resonate across the Global South more broadly, given the structural challenges many countries face in the wake of multiple, overlapping crises, as well as their continued dependence on commodity exports to meet foreign exchange needs.

While a full discussion of efforts to break the stranglehold of the privately-led renewable energy transition is beyond the scope of this report – and warrants increased research, discussion and advocacy by civil society and policymakers – trade unions and some countries have already demonstrated the benefits of publicly-owned renewable energy generation, or at least strategic joint ventures between states and private actors where benefits are more equally shared.

Chavez (2018) notes that, despite widespread neoliberal reforms in most Latin American countries’ power sectors in the 1990s, two countries stand out in terms of retaining substantial public-ownership: Costa Rica and Uruguay. As of 2017, 99.7 per cent of Costa Rica’s energy was derived from non-fossil fuel sources, with 73 per cent of this produced “by state- and socially-owned power producers”, as per Chavez, demonstrating that renewable energy provision through alternative models to the dominant status quo is possible. In Uruguay, renewable energy expansion has also proceeded apace. However, reforms that mandate the dominant public utility, the National Administration of Power Plants and Electrical Transmissions (UTE), “a vertically integrated power company fully owned by the Uruguayan state,” to enter into IPPs with private producers of wind power, have eroded its ability to retain control over this type of renewable energy generation capacity. Chavez argues,

“UTE’s sound financial indicators and positive credit rating could have allowed it to obtain sufficient external financing to fund wind power as a fully state-owned and managed programme. If the Ministry of Finance had allowed UTE to invest directly in wind generation instead of relying on independent power producers, it could have made significant savings. There would have been greater public debt in the short term, but UTE will lose money over the longer term in having to purchase energy from private suppliers.”

These two cases offer a parable for states’ renewable energy futures: Will they prioritise energy sovereignty at the heart of their energy transitions? And, will they have the policy and fiscal space to pursue such plans?

119 Ibid. See also: Fadhel Kaboub, Decolonising the global economic architecture: The prerequisite for a just transition, Bretton Woods Project, December 2023.
122 Ibid.
123 Ibid.
With these policy dilemmas centred, we offer the following policy recommendations:

(1) **Re-orient World Bank DPF financing towards helping countries achieve a green energy transition rooted in energy sovereignty and in strong national ownership**

The World Bank’s reliance on increasing private participation in the energy sector to enable a green energy transition in LMICs offers – at best – an incomplete blueprint, and this must be urgently addressed. Even in cases where the private sector is prepared to invest in new renewable energy generation projects, this typically requires states to take on additional fiscal risks and costs (including via take-or-pay contracts, etc) in order to de-risk projects for investors. There are also additional aspects of the green transition which are difficult to finance through private sector involvement, including the construction of transmission lines linking renewable energy capacity to areas of energy demand.

More broadly, there is a potential opportunity cost for states in creating investible project pipelines, where revenue-generating projects end up being owned by private, often foreign, investors – rather than publicly owned entities operating them as public goods. In this model, substantial profits are extracted by the private investors, including foreign ones, potentially exacerbating the deepening structural barriers to LMICs’ economic transformation. This raises questions about the credibility of the bank’s approach, in terms of assisting countries to navigate the difficult macroeconomic waters associated with the energy transition.

The World Bank and its Northern shareholders need to support a review and overhaul of the Bank’s energy sector conditionality. This should prioritise supporting LMICs in developing abundant renewable energy and promoting country ownership and energy sovereignty, reducing reliance on costly energy imports that exacerbate balance of payments challenges in the current global context. It is essential that the Bank works with countries to promote approaches to the energy transition that reverse extractive financial flows from Global South-to-North, and that it places the human rights of citizens, rather than the profit interests of investors, at the centre of its approach.

(2) **Increase the transparency of DPF operations overall, to allow for increased public and parliamentary oversight**

Civil society has long been concerned about the lack of effective governance in DPF financing, given that it sits outside the World Bank’s environmental and social safeguards, i.e. the Environmental and Social Framework. This means that there is limited public disclosure of the details of DPF ‘prior actions’ in advance of the World Bank executive board’s consideration of DPF operations, potentially resulting in negative human rights or environmental outcomes of projects being overlooked. Overall, our experience researching World Bank energy sector reforms made clear that these reforms are often happening with virtually no public debate or democratic processes linked to the proposed reforms. A series of email exchanges with energy experts in the case study countries in question revealed that even those engaged in research and policy work in these countries’ energy sectors have limited understanding of the Bank’s energy sector conditionality agreed with national authorities.

This lack of accountability and transparency poses serious challenges not only to the World Bank’s creditability, but to challenges related to ensuring green transitions in the LMICs that reflect just transition principles, including input from trade unions and affected communities, among other essential stakeholders. The World Bank policy paradigm highlighted in Sections 2-5 of this report poses substantial risks and costs for both borrowing governments and citizens. As has been demonstrated by the Bank’s Independent Evaluation Group, the impact assessments linked to DPF projects have frequently failed to identify key risks linked to DPF conditionality. Additionally, the efforts of new World Bank President Ajay Banga to streamline World Bank approval processes could potentially weaken the already minimal executive board oversight of the Bank’s DPF instrument, if DPFs are approved as a related series of DPOs, rather than as individual operations.

The World Bank must reform the governance around DPF and ensure that any policy changes are derived through transparent processes that are democratic, country driven, and rooted in citizens’ human rights. The World Bank should make public all discussions around policy changes in countries well in advance of WBG board discussions and be prepared to publicly explain the rationale for the changes it is proposing to authorities. While budget support loans and grants could play a role in helping LMICs to achieve energy sovereignty, embedded in deeper strategies of economic transformation, this can only be possible if DPF as an instrument is brought into the sunlight, and its highly political policy reforms – in the case of the energy sector – are re-embedded back into the political ownership of the countries, including through civil society involvement and parliamentary oversight.