Year one of World Bank Paris Agreement alignment in the energy sector:

‘green conditionality’ dwarfs green investments

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This work is part of BWP's environmental advocacy project, which monitors the Bretton Woods Institutions' efforts to mainstream climate change into their mandates. It also aims to expose and challenge World Bank and IMF policies that hinder climate goals and a just global transition. For any questions related to the project or the work itself please contact Jon Sward, Environment Project Manager, at jsward@brettonwoodsproject.org

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Lethaba Power Station outside Sasolburg in the Free State, 2007.

1. Introduction: the World Bank's approach to Paris alignment in the energy sector – green conditionality dominates first year of lending

On 1 July 2023, the World Bank Group began aligning projects approved by the International Development Association (IDA), its low-income country lending arm, and the International Bank for Reconstruction and Development (IBRD), its middle-income country lending arm, with the Paris Climate Agreement. According to the Bank, this alignment intends to "strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty."[1] This commitment is part of the Bank's Climate Change Action Plan 2021–2025, which aims to marry climate action with developmental goals, and builds on the 2018 Joint Declaration by multilateral development banks (MDBs), where they committed to align their activities with the Paris Agreement.[2]

The Bretton Woods Project (BWP) reviewed all 71 'energy & extractives' projects financed by IDA and IBRD during the first year of the Bank's Paris alignment (fiscal year 2024 – hereafter FY24).[3] This research found the continuation of a shift in the Bank's energy lending in recent years from Investment Project Financing (IPF), where the Bank finances specific projects, to Development Policy Financing (DPF), where the Bank provides non-earmarked budget support contingent upon policy reforms or 'prior actions'. In FY24, DPFs represented 38 of the 71 energy projects, totalling $13 billion of the approximately $19 billion committed in energy financing. IPFs accounted for 27 projects, totalling $5.31 billion. The remaining six projects were Programs for Results (PforRs), with $740 million committed.[4]

The findings suggest that the Bank's Paris alignment approach is being used to a significant extent to impose 'green' conditionalities on borrowing countries, especially in the Global South. This is primarily achieved by structuring energy sector conditionalities in a way that promotes a private-led energy transition, particularly within DPF prior actions and performance indicators tied to PforR disbursements. These conditionalities include the removal of consumer subsidies, the privatisation and liberalisation of energy sectors, and the modification of countries' regulatory frameworks to incentivise private investment through de-risking mechanisms. At the same time, the Bank provided relatively little direct financing for renewable energy projects via IBRD and IDA (only about $2.34 billion, spread across nine energy projects) – despite the urgent need to reduce greenhouse gas emissions in order to meet Paris Agreement temperature goals.

These findings raise serious concerns about the Bank's approach to Paris alignment in the energy sector. The Bank's private-led strategy to the energy transition is failing on its own terms, as private investment in energy projects is not materialising at scale in most countries in the Global South.[5] Moreover, de-risking energy projects for private investors typically creates additional costs for states and citizens in low- and middle-income countries (LMICs).[6] This contradicts the climate justice imperative: Global North countries owe LMICs a substantial 'climate debt' and this paper argues they should provide additional grant-based and concessional public finance at scale to ensure energy sovereignty and facilitate a 'public pathways' approach to a just energy transition.[7]

This briefing is structured as follows: section 2 outlines the Bank's approach to Paris alignment across its financing instruments, highlighting current issues with the approach. Section 3 reviews energy-related projects funded by IDA and IBRD in the first year of this alignment, i.e. FY24. Section 4 discusses the impact of Paris alignment on the Bank's energy sector lending, arguing that it has, at least in the first year, resulted in a doubling down on green conditionalities integral to the Bank's 'billions to trillions' agenda – a private sector-led, 'de-risking' approach that it argues is crucial for financing a green transition.[8] In Section 5, this briefing concludes that unless the Bank changes course and uses Paris alignment to transform its financing operations, it risks perpetuating practices that prioritise private profits over climate justice principles.

1 World Bank Group, *Overview: The World Bank Group and Paris alignment*, accessed 24 July 2024.

2 World Bank Group, *World Bank Group climate change action plan 2021-2025: Supporting green, resilient, and inclusive development*, 22 June 2021; World Bank Group, *The MDBs' alignment approach to the objectives of the Paris Agreement: Working together to catalyse low-emissions and climate-resilient development*, 2018.

3 This analysis uses publicly available data from the World Bank's database for 'energy & extractives' projects approved in FY24, extracted on 22 August 2024. It was cross-checked with the 'Affordable, Reliable and Sustainable Energy for All' WBG scorecard data as of 24 September 2024, finding all FY24 projects matched except four – P180575, P177099, and P181328, which are part of a regional IPF ('Eastern and Southern Africa - Accelerating Sustainable and Clean Energy Access Transformation Program') and P181086 in Kyrgyz Republic which was still included in the study. Note that the scorecard data is current as of December 2023 and excludes the second half of FY24, which is included in this dataset.

4 PforR is a funding mechanism that links disbursements directly to achieved outcomes.

5 Bretton Woods Project, *Gambling with the planet's future? World Bank development policy finance, "green" conditionality, and the push for a private-led energy transition*, April 2024; IBON International and Asia Pacific Research Network, *Reproducing systemic violence against women: Risks of World Bank's Development Policy Loans to women's rights in the Philippines*, March 2024.

6 T. Roa Avendaño *et al.*, *State of power: Energy, power and transition*, Transnational Institute, February 2024.

7 S. Sweeney, *Beyond recovery: The global green new deal and public ownership of energy*, Trade Unions for Energy Democracy, September 2023.

8 Development Committee, *From billions to trillions: Transforming development finance post-2015 financing for development: multilateral development finance*, 2 April 2015.

2. Unfinished business: the World Bank's Paris Agreement alignment methodology

To guide its Paris alignment efforts, the Bank developed a framework that includes an overview and instrument methods detailing its approach to DPF, IPF and PforR. The Bank also published 11 sectoral notes detailing how its methodology will be applied to various sectors and investment strategies, including the 'energy & extractives' sector.[9] On the whole, the Bank adopts a 'do no harm' approach to its borrowing countries' decarbonisation efforts.[10] The Bank's overview document contends that a project is aligned with the Paris Agreement's mitigation goals if it complies with any of the following: "(i) actively contributes to decarbonization by supporting GHG [greenhouse gas] emission reductions or increasing sinks (e.g., policies that incentivize renewable energy generation); (ii) has little impact on decarbonization on account of leading to negligible GHG emissions (e.g., reforms related to digital inclusion or connectivity); (iii) *generates significant GHG emissions* but is in line with the country's long-term decarbonization pathway and has a low risk of locking in carbon-intensive patterns" (added emphasis). It further adds that the Bank's approach "does not provide a judgement on a country's level of ambition, strategies, or priorities identified in its NDCs [Nationally Determined Contributions] or LTS [Long-Term Strategies]."[11]

This is significant, as the Bank's interpretation of Paris alignment does not explicitly commit to limiting global warming to 1.5°C or even 2°C. Instead, the Bank aligns its financing with countries' national pledges, which collectively fall far short of meeting the Paris Agreement temperature goal. According to a 2023 assessment by the UN Environment Programme, the current pledges in NDCs are projected to result in a temperature rise between 2.5°C and 2.9°C by 2100.[12] Furthermore, the *Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment* – which the Bank is party to – only include coal mining and electricity generation from peat and coal as universally 'non-aligned' activities.[13] This potentially leaves room for other types of fossil fuel projects to be 'conditionally aligned' in certain country contexts under the MDBs' approach.

Additionally, the Bank's methodology for determining what constitutes 'carbon lock-in' in different lending instruments lacks transparency and clarity. For instance, the DPF methodology allows a DPF prior action to be aligned with the Paris Agreement if it "generates significant GHG emissions but is in line with the country's long-term decarbonization pathway and has a low risk of locking in carbon-intensive patterns."[14] It states that carbon lock-in occurs when an operation hinders the transition to low-greenhouse gas emission development pathways, "even when alternatives with lower GHG emissions become technically feasible and economically viable." However, the guidance note does not disclose a methodology for how the Bank determines what is 'technically feasible' or 'economically viable'. A June 2024 briefing by Netherlands-based civil society organisation (CSO) Recourse highlighted that this loophole in the Bank's DPF methodology has enabled fossil gas expansion at the expense of renewables in Bangladesh and Senegal.[15]

More fundamentally, the Bank's approach to Paris alignment fails to critically assess its longstanding policy framework, which has promoted the liberalisation of the energy sectors of its borrowing countries. Dating back to the 1990s, this framework has been grounded in the principles of the Washington Consensus and the Bank's widely criticised Structural Adjustment Programmes.[16] Originally developed with the goal of increasing efficiency and innovation, attracting private investment and lowering consumer prices through competition, this approach has been met with uneven success, according to the Bank's own research.[17] Nevertheless, it seems that this policy framework is now being repurposed under the guise of climate action. An April 2024 BWP report analysing DPF energy-sector conditionalities from 2018 to 2023 found that the Bank continues to promote neoliberal reforms across numerous countries' energy sectors – a concern echoed by CSOs like Philippines-based IBON International and the Asia-Pacific Network.[18] However, this approach is failing to mobilise the large-scale private investments in renewable energy promised, while often imposing significant costs on Southern governments and consumers. The Bank's Paris alignment approach risks reinforcing 'green conditionality', and further constraining borrower countries' policy space for effective climate action – a trend that, as discussed below, is already occurring in the first year of implementation.

9 World Bank Group, Overview; World Bank Group, *Instrument methods*, accessed 24 July 2024.

10 A. Doig and F. Witt, "Why the World Bank's 'Paris alignment' process could add fuel to the climate crisis", *Energy Monitor*, 30 June 2023; A. Carolin-Gebel and D. Ryfisch, "World Bank Group Paris alignment draft methodology needs work", *Germanwatch*, 12 April 2023.

11 World Bank Group, *Overview*.

12 United Nations Environment Programme, *Emissions gap report 2023*, 11 August 2023.

13 World Bank Group, *Joint MDB methodological principles for assessment of Paris agreement alignment*, accessed 24 July 2024.

14 World Bank Group, *World Bank Paris alignment method for development policy financing*, accessed 24 July 2024.

15 F. Witt and C. Temizyurek, *The end game for fossil gas: How to make World Bank Development Policy Finance align with the Paris Agreement*, Recourse, June 2024.

16 The Bank's 1990s power sector policy paradigm is well-explained in this publication: V. Foster and A. Rana, *Rethinking power sector reform in the developing world*, World Bank Group, 2020.

17 K. Gassner, A. Popov and N. Pushak, *Does the private sector deliver on its promises? Evidence from a global study in water and Electricity*, May 2008.

18 Bretton Woods Project, *Gambling with the planet's future*; IBON International and Asia Pacific Research Network, *Reproducing systemic violence against women*.

3. Energy and extractives projects approved in year one of World Bank Paris alignment: the Bank's private-led approach to the energy transition continues

In FY24 (1 July 2023 to 30 June 2024), the World Bank's board approved 71 'energy & extractives' projects in IDA and IBRD, with a total financing commitment of approximately $19 billion – according to data publicly available on the World Bank's website. These projects are distributed as follows: 42 under IDA ($8.6 billion), 24 under IBRD ($10.4 billion), and five with blended financing from both sources. According to the Bank, this funding is intended to "make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development," in line with Article 2.1(c) of the Paris Agreement.

Among these 71 energy-related projects, 38 are DPFs, 27 are IPFs, and six are PforR (see Figure 1 for the geographical distribution of these projects). The 38 DPFs approved in FY24 made up more than half of all energy-related project approvals. This reflects a broader trend where, since FY20, DPFs have overtaken IPFs as the primary funding instrument in World Bank energy lending (see Figure 2). This trend raises concerns as DPF prior actions often push a private sector-led energy transition, leading to a loss of energy sovereignty by prioritising profit over public goods, which arguably undermines efforts to address the climate crisis, given the paucity of private finance flows currently (see Section 4).[19] Other concerns include the lack of publicly available information regarding the use of non-earmarked budget support provided through DPF operations, which constitute fungible budget support. As Germany-based CSO Urgewald noted in 2019, fossil fuels are not included in the Bank's Excluded Expenditures list for DPF and therefore "hundreds of millions to billions of WBG budget support [via DPF] could be used for the building of coal power plants or towards upstream oil and gas operations."[20] Additionally, unlike IPFs, DPFs are not governed by the Bank's Environmental and Social Framework. Instead, the Bank relies on a separate policy for Development Policy Operations (DPOs), which mandates relatively light touch risk assessments, i.e. Poverty and Social Impact Analysis (PSIA), on proposed prior actions, raising concerns about whether these policy conditions have been adequately screened for potential negative impacts.[21]

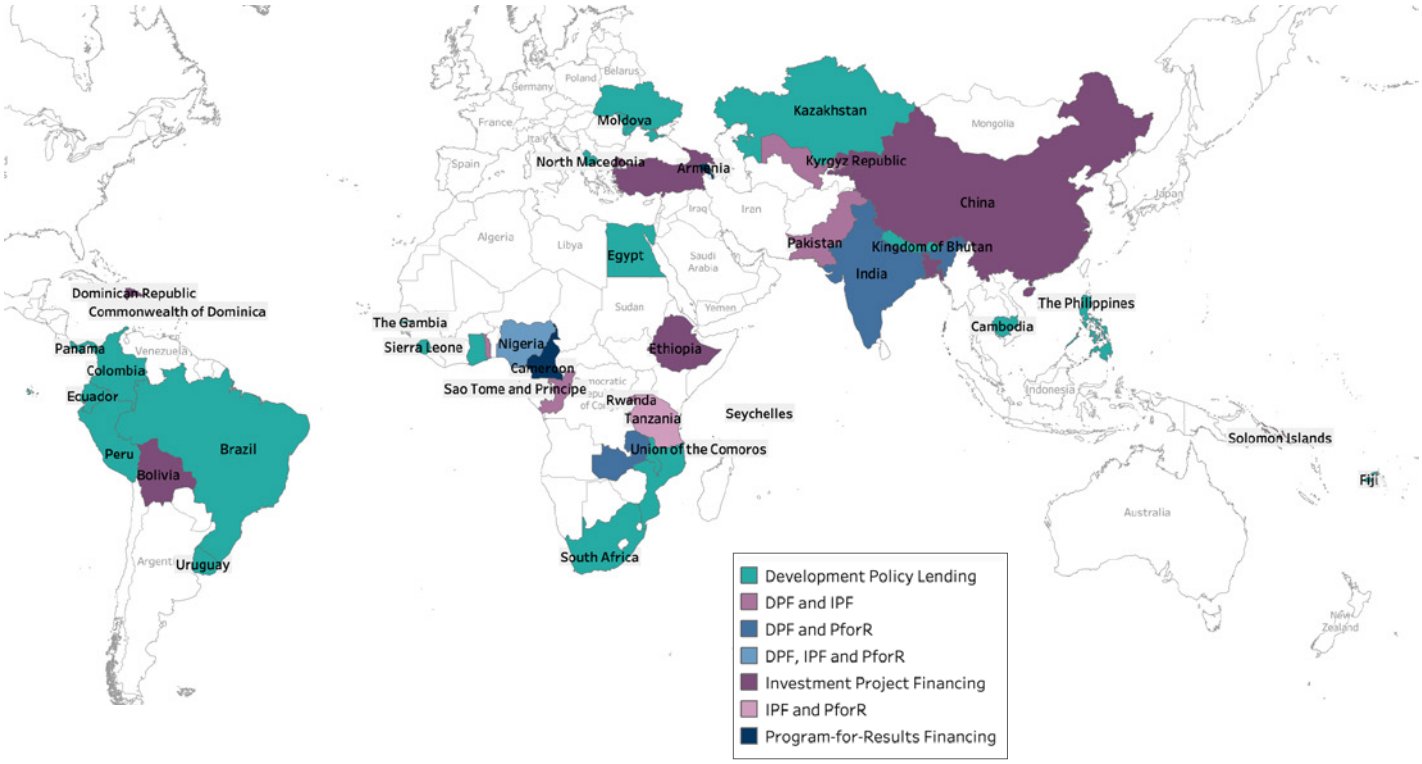

Figure 1: Geographical overview of FY24 'energy & extractives' energy projects

19 P. Robbins, "Public-private partnerships hurt the clean energy transition", *Jacobin*, 28 August 2024.

20 H. Mainhardt, *World Bank Group financial flows undermine the Paris Climate Agreement: The WBG contributes to higher profit margins for oil, gas, and coal*, Urgewald, March 2019.

21 *Joint civil society submission on the development policy financing retrospective*, December 2021.

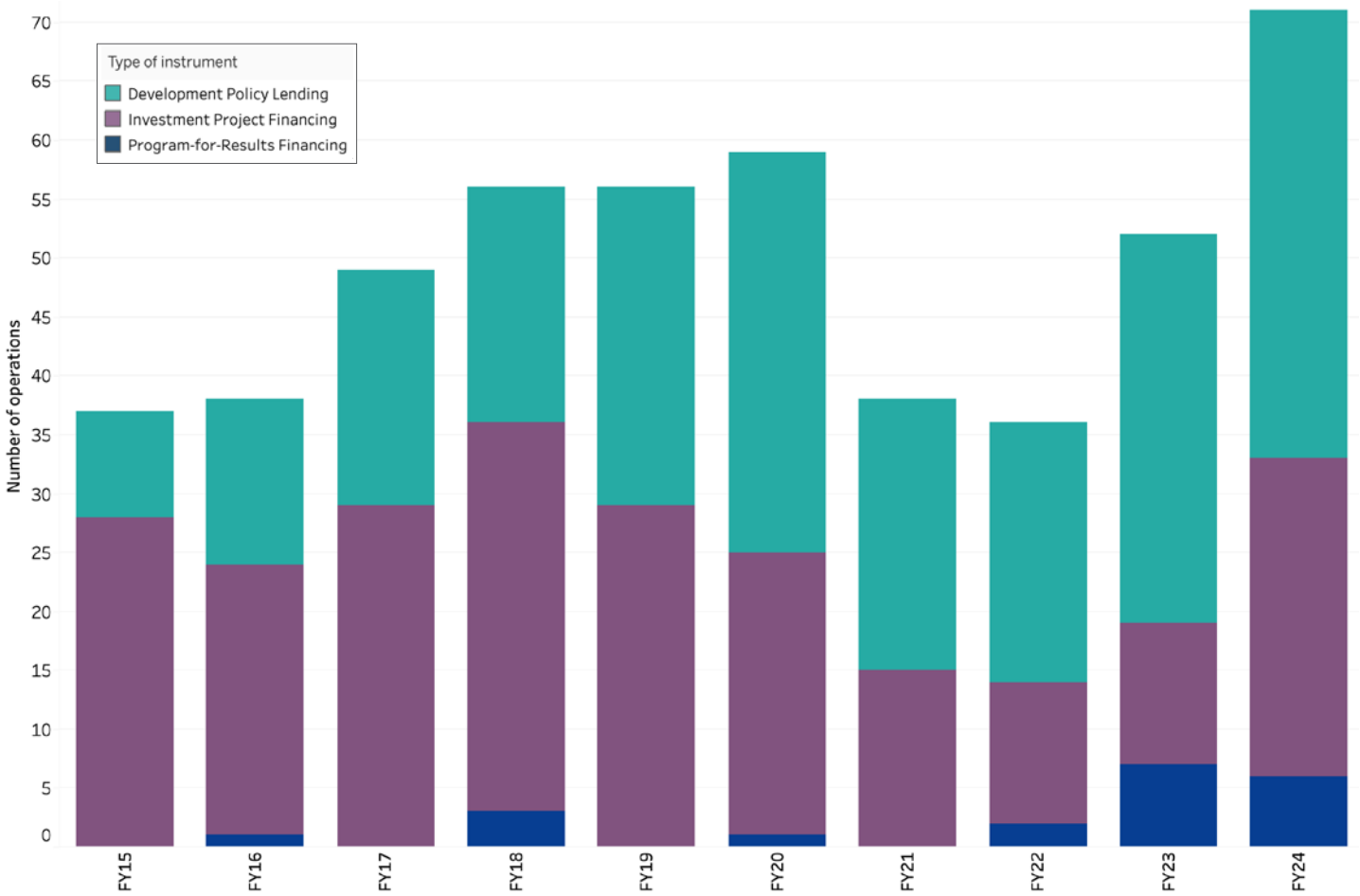

Figure 2: Distribution of IDA and IBRD funding in 'energy & extractives' projects between DPFs, IPFs, PforR from FY15-24

Twenty-seven IPFs were approved in FY24, with the WBG allocating only $2.34 billion to renewable energy infrastructure out of a total $5.31 billion for all energy-related IPFs (making up only 12.3 per cent of the Bank's energy financing for the year). Nearly half of this renewable funding ($1 billion) was directed to the controversial Dasu Hydropower Project in Pakistan. Additionally, the Bank's renewables funding was primarily provided as loans, many of which were short-term, with one IPF serving as a guarantee for private operators. Finally, six PforR were approved, with three – located in Armenia, Tanzania and Cameroon – focused on renewable energy. However, these tied fund disbursements directly to creating an enabling environment for the private sector through market liberalisation and energy privatisation, as discussed below.

3.1 Development Policy Financing projects: a vehicle for green conditionality

In the 38 'energy & extractives' DPFs approved in FY24, borrowing countries committed to 317 prior actions to access the funds. Reviewing these prior actions highlighted some key trends, including attracting private investments through regulatory reforms (60 prior actions), enhancing governance, finances and oversight of state-owned enterprises (32 prior actions), and removing consumer subsidies (24 prior actions).

3.1.1 Enabling private sector participation

Sixty prior actions, agreed across 39 borrowing countries, aimed to reshape regulatory frameworks to attract private sector investment in the energy sector. Examples included a $125 million DPF to Fiji which involved the Electricity (Amendment) Bill that, among other measures, improved the enabling environment for private investments in renewable energy; a $20 million DPF to the Solomon Islands, which introduced the Solomon Islands Investment Policy and Promotion Strategy to streamline business processes and establish a new Investment Promotion Authority; and a $40 million DPF to Moldova which achieved the provisional unbundling of gas transmission, as shown by amendments to the Natural Gas Law.

Eleven prior actions were designed to de-risk private investments, including: a $600 million DPF to Kazakhstan which "improve[d] the bankability of renewable energy auctions" by incorporating foreign exchange risk mitigation options and increasing the maximum ceiling cap price for renewable energy auction tariffs; a $350 million DPF to Panama providing fiscal incentives for primarily private solar projects;

and a $1 billion DPF to South Africa offering licensing exemptions to private electricity generators. Additionally, six prior actions focused on facilitating foreign investment and ownership, including a $750 million DPF to the Philippines mandating 100 per cent foreign ownership in public service sectors and a $300 million DPF to Ghana reducing minimum foreign capital requirements for investments across all sectors, including energy.

These prior actions demonstrate how the Bank is structuring its energy conditionalities to promote a private-led transition – often to the benefit of Global North-based private actors – building on its 1990s energy sector policy framework that aimed to unbundle state-owned utilities, encourage private sector involvement and create competitive wholesale energy markets.[22] [23] However, this raises concerns because, as argued in a 2023 joint CSO briefing on the Bank's proposed Evolution Roadmap reforms, this model has been extensively criticised as a "flawed development paradigm that assumes incentivising private finance is inherently benign and productive, while failing to acknowledge that the type of projects designed to attract profit-seeking private investors and generate quick returns might not match the public interest and national or local priorities, or support sustainable economic transformation."[24] As further argued in BWP's April 2024 report on DPF conditionality in the energy sector, leaving the required transformational changes in economic structures to profit-seeking entities is inherently flawed. This approach, especially given the lower profitability of renewables compared to incumbent fossil fuels,[25] and the increasingly prohibitive capital costs in the Global South,[26] has been failing to attract the necessary private investments for renewable energy, and is also shifting the financial liabilities and costs onto citizens and governments in LMICs, undermining hopes for a just transition (as discussed further in Section 4).[27]

3.1.2 Removing consumer-side subsidies

Twenty-four prior actions, agreed across 17 countries, involved the removal of fuel subsidies (see Figure 3). The Bank argues for 'getting the price right' – where the price of fossil fuels reflects their environmental cost – so consumers will internalise this and change their behaviour.[28] However, this approach, rooted in neoclassical economics assumptions, is problematic without ensuring it is accompanied by providing affordable and reliable 'green' alternatives.[29] This is especially so, considering access to electricity is a human right, as acknowledged by WBG President Ajay Banga at the World Bank and IMF Spring Meetings in April 2024.[30]

The Bank primarily targets the removal of consumer subsidies via DPF – which directly impact citizens' energy costs – while largely leaving producer side subsidies, which drive the continued exploitation of fossil fuels, untouched.[31] As Sean Sweeney of Trade Unions for Energy Democracy explains, by not addressing producer subsidies, which maintain artificially low fossil fuel production costs, this strategy risks discouraging investment in renewables and restricts access to affordable green energy options for consumers.[32]

3.1.3 Energy projects still supporting fossil fuels

Although no 'energy & extractives' project documents explicitly state that the Bank has directly funded fossil fuels in its first year of Paris alignment, various projects continue to support fossil fuels – either by endorsing domestic policies and laws that promote fossil fuel development, or indirectly through investments that support fossil fuel infrastructure. Determining the extent of this is challenging, as the Bank's project documents typically lack detailed information on the specific measures within the government policies or laws supported by the Bank's DPF prior actions, necessitating further research. While this further research was not systematically undertaken for this brief, the authors did identify instances where DPFs directly support national plans involving extensive fossil fuel development. For example, the $30 million 'Second Recovery and Resilience Programmatic Development Policy Credit' in Grenada includes a prior action where "the Recipient has approved the updated National Energy Policy [NEP]." Although the draft NEP – developed through a WBG-funded consultancy – was updated to enhance renewable energy and energy efficiency targets, it also has a section on hydrocarbons, which states that Grenada "acknowledges the potential of its fossil fuel reserves and wishes to use hydrocarbon reserves as a means to generate revenues as an export commodity."[33]

Additionally, some projects explicitly support fossil fuel-related infrastructure, two examples of which are noted in this paper. Firstly, Zambia's 'Second Macroeconomic Stability, Growth, and Competitiveness' DPF (prior action 5) enhances transparency in diesel supply via new energy regulations and TAZAMA pipeline open access guidelines. This prior action involves issuing regulations and guidelines to ensure wider access and transparency in using the existing TAZAMA pipeline, not building new diesel infrastructure. However, it does aim to enhance the operational framework for diesel transportation. Secondly, the $300 million 'Gas Sector Efficiency Improvement and Carbon Abatement Project' IPF in Bangladesh focuses on installing gas metering systems and reducing gas leakages ($294 million), and policy development for decarbonisation ($6 million).

22 This 1990s paradigm mandates the privatisation of entire power systems, dismantling decades-old public infrastructure. Even minimal private sector involvement has led to reforms that force public companies to operate as private entities. See: B. Christophers, *The price is wrong: Why capitalism won't save the planet*, New York: Verso Books, 2024.

23 V. Foster and A. Rana, *Rethinking power sector reform.*

24 CSO joint paper, *Civil society calls for rethink of World Bank's evolution roadmap as part of wider reforms to highly unequal global financial architecture*, July 2023.

25 Christophers, *The price is wrong.*

26 S. Attridge and L. Engen, *Blended finance in the poorest countries: The need for a better approach*, Overseas Development Institute, April 2019.

27 S. Haag *et al.*, *Who profits from the green energy rush? Derisking and power relations in Africa's renewable energy finance*, Transnational Institute, February 2024.

28 World Bank, *Inclusive green growth: The pathway to sustainable development*, 2012.

29 *Macrodose* podcast, "What Economics Gets Wrong About Climate Change with Ha-Joon Chang", 27 June 2024.

30 A. Waris, *The Independent Expert on Foreign Debt, other International Financial Obligations and Human Rights welcomes the World Bank Group's recognition that access to energy is a human right*, UN Human Rights, 25 July 2024.

31 This distinction differentiates between consumer subsidies (which lower end-user energy costs directly) and producer subsidies (which include financial incentives like subsidised inputs and tax breaks to the fossil fuel industry. See: S. Sweeney, *"Weaponizing the numbers"*, *The Bullet*, 29 March 2020.

32 Ibid.

33 *Grenada: National energy policy 2023- 2035*, 8 March 2023. As noted by the International Energy Agency, new oil and gas operations are not aligned with a 1.5C pathway.

Project name	Subsidy removals
Congo's Second Fiscal Management and Inclusive Growth DPF	Established the modalities for the application of the value added tax (VAT) for oil upstream operations
Ecuador's Third Green and Resilient Recovery DPF	Reduced the fuel subsidy for large shrimp farms
Fiji's Growth and Resilience First DPF with a Catastrophe Deferred Drawdown Option	Increased rates for the value added tax, the income tax, and the airport departure tax
Gambia's First Boosting Resilience and Unlocking Productive Potential DPF with Cat DDO	Supporting the issuance of regulations on an electronic tax stamp traceability system related to excisable goods and petroleum products
Ghana's First Resilient Recovery DPF	Enacted the VAT (Amendment) Act which inter alia increases the VAT rate to 15 per cent
Grenada's Second Recovery and Resilience Programmatic DPF	Amended the Environmental Levy Act which restores a tax of EC$5 on electricity consumption for 100 - 150 kWh and EC$10 for over 150 kWh, and sets a tax of EC$5 on water consumption for 2,801 - 5,500 gallons and EC$10 for over 5,500 gallons
Kazakhstan's Inclusive and Sustainable Economic Growth DPF	Adopted a new incentive-based methodology to set heating tariffs consistent with the principle of full cost recovery
Kosovo's Fiscal Effectiveness, Competitiveness and Green Growth DPF	Introduced a tax on the consumption of plastic bags
Malawi's First Growth and Resilience DPF with a Catastrophe Deferred Drawdown Option	Approved policy change on Implementation of the 2023-24 Affordable Inputs Program, to improve targeting and economic efficiency of the program
Mozambique's Second Institutions and Economic Transformation DPF	Defined a new electricity retail tariff structure allowing recovery of fixed, demand and energy-related costs
Nigeria's Reforms for Economic Stabilization to Enable Transformation DPF	Increased the price of gasoline, and terminated deductions from oil revenues for the under-recovery of import costs through which the cost of the gasoline subsidy was paid for out of budgeted federation oil revenues
North Macedonia's Sustainability and Resilience DPF	Increased the tax for most-polluting cars
Pakistan's Second Resilient Institutions for Sustainable Economy DPF	Reduced subsidies for users above 200kWh/month for six consecutive months; eliminated the incremental block tariff benefit; and increased electricity tariffs for users above 200kWh/month for six consecutive months in FY23
Sao Tome and Prin's Third Covid-19 Recovery and Resilience DPF	Amended the VAT Code, which sets the value added tax to 15 per cent and specifies the date for it to enter into effect
Solomon Islands' Resilience DPF with a Catastrophe Deferred Drawdown Option	Submitted to Parliament the Value Added Tax (VAT) Bill, which taxes goods and services at a standard rate of 15 per cent and zero-rates all exports
South Africa's Sustainable and Low-Carbon Energy Transition DPF	Amended the Carbon Tax Act to gradually increase the carbon tax rate

Figure 3: Removal of subsidies in FY24 'energy & extractive' IDA and IBRD projects

Despite emissions reduction goals, this IPF funds gas infrastructure modernisation, again raising potential carbon lock-in issues. A June 2024 briefing by Recourse explained that the Bank's focus on developing gas in Bangladesh, which it sees as a transition fuel, creates long-term dependencies and delays the shift to renewables.[34] However, as argued in a May 2023 NRDC blog, gas will only play a niche role in a decarbonised energy sector and the 'transition fuel' narrative should not be used as a justification for building new fossil fuel infrastructure.[35]

3.2 Investment Project Financing & Programme for Results projects in FY24: controversial dam makes up lion's share of 'renewable energy' investments

The WBG approved 27 energy-related IPFs in FY24. We analysed these projects, categorising the Bank's funding into five main areas: renewable energy infrastructure development ($2.34 billion), grid extension and energy access ($744 million), policy support and/or technical assistance ($612 million), developing and modernising energy transmission infrastructure – not specific to renewable energy ($588 million), and other objectives ($1 billion) (see Figure 4).

34 Witt and Temizyurek, *The end game for fossil gas.*

35 H. Fekete *et al.*, "World Bank's sector notes lack sufficient detail to ensure full Paris agreement alignment", *NRDC*, 10 May 2023.

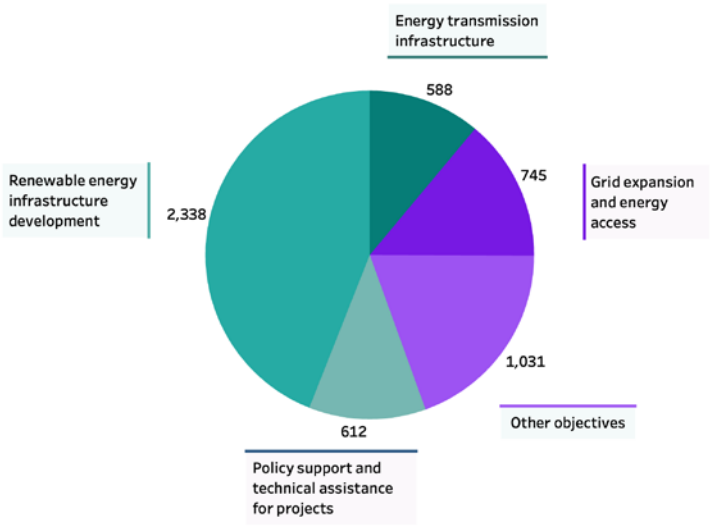

Figure 4: WBG financing categories (in USD millions) for IDA and IBRD energy-related IPFs in FY24

As such, only $2.34 billion – allocated across nine IPFs – was committed directly to renewable energy projects, despite the urgent need for concessional financing for renewables in the countries where the World Bank operates. Of this amount, close to half ($1 billion) was committed to the Dasu Hydropower project in Pakistan, which aims to generate 2,160 MW of energy. This major infrastructure project is a key component of the China-Pakistan Economic Corridor, but was the target of protests in 2016 due to significant resettlement issues, land disputes, and inadequate consultations and compensations (an issue often seen in large hydropower projects, which, despite being classified as renewable energy by the Bank, have a long track record of negative social and environmental impacts).[36] The remaining Bank financing for renewable energy infrastructure in FY24 included: $710 million for solar hybrid mini-grids and standalone systems in Nigeria (as part of the Distributed Access through Renewable Energy Scale-Up project, which is the Bank's first attempt to create a private-sector-led electrification system); $230 million in China for two new low-carbon heating systems, including geothermal and waste heat; $220 million in Bangladesh for a solar power plant in the Bhasan Char displaced Rohingya populations camps, using battery energy storage systems backed up by a diesel generator; $81.5 million to install 30–50 MW of solar photovoltaic (PV) and grid-connected generation plants with battery energy storage system in the Mogadishu capital area in Somalia (as part of the Accelerating Sustainable and Clean Energy Access Transformation [ASCENT] programme); $52.63 million in Ethiopia for geothermal site preparation; $18 million in Bolivia for photovoltaic and mini-grid systems; $13.4 million in São Tomé and Príncipe, as part of the ASCENT programme, for site preparation of up to 15 MW of solar PV capacity, including an initial 5 MW plant to be managed by a private operator - the funding also provides risk mitigation instruments (i.e., a tariff buy-down solution to ensure the tariff is financially viable for the off-taker, and a liquidity guarantee covering off-taker risk) for a 10 MW plant to be developed by an independent power producer; and a $12 million guarantee in Uzbekistan for a hybrid power plant with solar PV and battery storage.

Finally, six PforR operations were approved in FY24, with objectives for unlocking financing that share some similarities with DPF conditionality in the energy sector. Among these, three PforR addressed renewable energy integration but mainly focused on creating an enabling environment for private sector participation. For example, in Armenia, while the PforR aimed to integrate 1.1 GW of renewable energy into the power grid, the $40 million loan disbursements were tied only to preparatory activities, including $3 million for liberalising the electricity market and $5 million for attracting private investment in transmission infrastructure. Similarly, Tanzania's $300 million PforR, which aimed to improve on-grid access and distributed renewable energy in rural areas, linked disbursements to the operationalisation of the Renewable Energy Investment Facility – a fund designed to support renewable energy projects by providing financial resources and incentives to private companies, with $5 million required to be disbursed to selected private companies. In Cameroon, a $300 million PforR aimed to enhance financial performance and electricity access within the sector. Although it included a goal to increase the share of renewable energy by hybridising thermal plants with solar PV, it did not specify how much of the funds are allocated to this objective.

The Bank also approved a $100 million PforR to Zambia aimed at enhancing the financial sustainability, operational reliability and resilience of its electricity sector, with disbursements including $10 million for converting loans to equity in the national utility's balance sheet and $10 million for enabling private sector participation, including launching the pre-qualification process for renewable energy projects. Lastly, two additional PforRs were approved in Nigeria and India with different objectives: Nigeria's focused on increasing non-oil revenues and safeguarding oil and gas revenues, while India's aimed to enhance logistics efficiency and trade facilitation in West Bengal.

36 M. Zubair Khan, "Tribal protests halt work on Pakistan's Dasu dam", *Dialogue Earth*, 26 September 2016. See other examples: J. P. Orrego, *Alto Maipo: Harms endure due to MDBs' lack of proper due diligence*, in Bretton Woods Observer, Winter 2021; J. Yumnam, *Local communities oppose planned dam construction supported by World Bank in Manipur*, in Bretton Woods Observer, Winter 2019.

4. The Bank's 'billions to trillions' agenda & Paris alignment in the energy sector: problematic bedfellows

BWP's analysis suggests that the Bank's Paris alignment approach in energy projects for IDA and IBRD countries is continuing to promote green conditionalities with the goal of achieving a private sector-led energy transition, rather than delivering substantial direct investments in renewable energy through grants and concessional finance. This is particularly evident in the prior actions tied to DPFs and the objectives of PforR operations, which emphasise removing consumer subsidies, privatising and liberalising energy sectors, and attracting private investment through de-risking mechanisms and favourable regulatory environments.[37] These prior actions are aligned with its 'billions to trillions' vision, which aims to mobilise private sector funds to fill the $4 trillion annual financing gap required by LMICs for climate and developmental goals, according to UNCTAD's *2023 Trade and Development Report*.[38]

Ahead of COP28, World Bank President Ajay Banga argued that "there will never be enough money in government coffers, whether in rich or poor countries," to effectively combat the climate crisis, seeing the private sector – armed with trillions in assets – as the only rescue boat in sight.[39] However, attracting private sector investment is challenging. To entice risk-averse investors to green ventures – which typically rely to a large extent on up-front, loan-based financing – countries must promise returns that justify the perceived risks.[40] The idea is that the public sector, including governments and multilateral development banks themselves, offer incentives such as subsidies and tax exemptions to facilitate profitable renewable energy development by the private sector.

However, this blended finance model is failing to deliver financing at the scale and pace required to achieve climate goals. As a 2023 working paper co-authored by Philippe Le Houérou, former Managing Director of the International Financial Corporation (IFC), the Bank's private-sector arm, stated, "instead of closing, the 'trillion' dollar gap [...] continues to widen."[41] For example, the South African Just Energy Transition Partnership (JETP) is a $8.5 billion climate finance initiative supported by France, Germany, the UK, the US, the EU and the World Bank-hosted Climate Investment Funds. This amount includes commercial loans, concessional loans and grants from these international partners, while the remaining transition financing needs are expected to be covered by the private sector through public-private partnerships. However, the JETP has so far secured only one-tenth of the required funds.[42] This is despite the South African government undertaking extensive de-risking measures to 'attract' private investors – as seen in the South African DPF for FY24, which required the unbundling of the energy utility Eskom, effectively demoting Eskom to an off-taker of energy from independent power producers – resulting in higher consumer costs and added strain on public resources.[43] Professor Daniela Gabor refers to this model of blending public and private finance as the "Wall Street (Climate) Consensus" where "nation states are supposed to protect the financial sector from the risks of investing in developing markets. This would privatise gains for finance and push losses onto low-income governments and the poor."[44]

This private sector-led approach arguably contradicts the Bank's commitments to the Sustainable Development Goals, human rights and gender equality by undermining the delivery of essential public services and further widening inequality. The contingent liabilities associated with assuming private sector risks coupled with public finance mostly being loan-based can also limit the fiscal space of the Bank's recipient governments.[45] Historically, while Global North economies developed through extensive state intervention, such as high import tariffs, public subsidies and research and development support, Global South economies, constrained by colonial exploitation, Structural Adjustment Programmes and World Trade Organisation rules, had the ladder pulled away from them.[46] A 2000 UNCTAD report noted that "in the colonial period, [the Global South] had related to the world market mainly as exporters of raw materials while importing manufactures," a pattern that largely continues today.[47] This briefing argues the Global South must break free from this pattern of unequal exchange and reclaim sovereignty over its resources, ensuring the policy space needed to develop macroeconomic strategies for green economic transformation. At present, the Bank, by linking Paris alignment to privatisation and further debt, is limiting their ability to do so.

37 See also the role of the Multilateral Investment Guarantee Agency (MIGA), the Bank's project insurance arm, in de-risking private investments in risky environments: Recourse, *De-risking for climate? A closer look at the MIGA-supported investments on energy projects*, July 2024.

38 United Nations, *Trade and development report 2023*, October 2023.

39 S. Mufson, "How the World Bank's new boss is navigating a clash over climate change", *Washington Post*, 20 November 2023; UNCTAD, *Trillion-Dollar Shift Urgently Needed to Align Global Finance with Climate and Development Goals*, 6 March 2024.

40 C. Hayes and M. Brusseler, "Decarbonising the grid without large-scale public investment is impossible", *The New Statesman*, 21 February 2024.

41 P. Le Houérou and H. Lankes, *Mustering the private sector for development and climate in the Global South: Is it realistic? Lessons and recommendations from an on-going experiment at the World Bank Group*, FERDI Working Paper, 2023.

42 A. Tooze, "When is a policy not a policy? The curious case of the hollow JET-P", *African Arguments*, 26 March 2024.

43 See also 2023 report on IMF-World Bank energy interventions in Pakistan, highlighting how the 1990s independent power producers model locked in fossil fuel dependency and foreign debt through dollar-denominated agreements: Alliance for Climate Justice and Clean Energy, Alternative Law Collective, Recourse, *How are the IMF and the World Bank shaping climate policy? Lessons from Pakistan*, September 2023.

44 D. Gabor, "The Wall Street Climate Consensus", *Tax Justice Network*, 28 May 2020; D. Gabor, "The Wall Street Consensus", *Development and Change*, 52, no. 3 (2021): 429–59.

45 Bretton Woods Observer, *World Bank's $1 billion loan to South Africa risks undermining just transition by doubling down on 'de-risking' private capital*, Summer 2024.

46 H-J Chang, *Bad Samaritans: The myth of free trade and the secret history of capitalism*, London: Bloomsbury Publishing, 2008.

47 United Nations Trade and Development, *Globalization and the South: Some critical issues*, April 2000.

5. Conclusion: the Bank's Paris alignment approach must evolve

The planet has warmed by approximately 1.1°C relative to pre-industrial levels, causing significant damage and loss of life through floods, storms, wildfires and droughts.[48] The Paris Agreement, signed by 196 countries, aims to limit global warming to "well below" 2°C, with efforts to keep it to 1.5°C. However, even this range poses catastrophic risks, such as ice-sheet collapse, rising sea levels and the potential triggering of irreversible climate feedback loops.[49] Yet, emissions are still rising, reaching record levels in 2023.[50]

The World Bank, as the self-proclaimed leading provider of multilateral climate finance to LMICs, has completed a year of aligning its direct financing operations with the Paris Agreement.[50] However, as this brief has shown, the Bank's 'Paris alignment' approach has thus far promoted green conditionalities linked to the privatisation and liberalisation of the energy sector in recipient countries, rather than offering substantial direct investments in renewable energy through grants and concessional finance. While some countries are reviving industrial policy to compete in the green economy[51] – with China, for example, capturing three-quarters of global clean-energy manufacturing investment in 2023[52] – many Global South countries remain trapped in debt crises, unable to follow suit. From 2011 to 2023, external debt payments surged by 150 per cent, reaching a 25-year high, according to the UK-based CSO Debt Justice.[53] As Brett Christophers notes, according to data from the International Energy Agency, while investment in renewable energy has been growing in China and advanced economies, overall investment outside these countries in renewable energy "has been stagnant in real terms since 2015", a phenomenon he argues is the result of the difficulty in ensuring that private projects produce sufficient profit returns for investors.[54]

In this context, the Bank must continue to transform its approach to align with the Paris Agreement in a way that delivers a just energy transition that is at once people-centred and better aligned with meeting ambitious global climate goals. We recommend:

- **An external, expert-led review of the Bank's private sector-led energy transition approach:** this review should identify how to create the fiscal and policy space for genuine green transformation in the Global South. It should ensure private sector efforts align with public interest, incorporating a 'public pathways' approach where the state is in the driver's seat of the green transition, and governments also benefit from revenues generated by new green projects rather than merely acting as 'derisking' agents.
- **Increased civil society participation:** national trade unions and civil society must have a real voice in these debates to build support for green transition policies, including engagement in the World Bank Country Climate and Development Reports (CCDRs). This is necessary in order to build bottom-up, broad based support for green policies that are people centred and have durable political support.
- **Increased transparency of WBG energy investments and climate finance accounting:** the Bank should publicly disclose its analysis on, (a) whether energy projects are counted as climate finance (including what sub-project components are counted); (b) whether or not projects will lead to 'carbon lock-in' and how judgments are made about whether renewable energy projects are 'technically feasible'; and (c) what policy changes it proposes to decarbonise energy sectors via DPF, well in advance of the World Bank board discussions, to allow for greater public and parliamentary scrutiny and debate of the Bank's 'green' conditionality.

48 IPCC, *AR6 synthesis report: Climate change 2023*, March 2023.

49 W. Steffen *et al.*, *Planetary boundaries: Guiding human development on a changing planet*, *Science*, 347, no. 6223, 13 February 2015.

50 J. Ambrose, "Fossil fuel use reaches global record despite clean energy growth", *The Guardian*, 20 June 2024.

51 According to the Bank's internal reporting, it provided $38.6 billion in climate finance in fiscal year 2023. See World Bank Group, *Climate finance update*, October 2023.

52 P. Cohen *et al.*, "How China pulled so far ahead on industrial policy", *The New York Times*, 27 May 2024.

53 International Energy Agency, *Advancing clean technology manufacturing*, 6 May 2024.

54 Debt Justice, *Lower income country debt payments to hit highest level in 25 years*, 11 April 2023.

55 Christophers, *The Price is Wrong.*

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