Climate change is posing a real threat to the livelihoods of countries and communities in the global south. This includes climate-induced indebtedness, which impacts negatively on the ability of countries to deliver public services, such as access to affordable and clean drinking water during and after a climate extreme event. Despite having contributed the least to causing climate change, the global south is disproportionately impacted. Therefore, it needs access to high quality climate finance that is in line with ‘Common But Differentiated Responsibilities and Respective Capabilities’ (CBDR-RC), as is enshrined in the United Nations Framework Convention on Climate Change (UNFCCC). This finance is needed to implement mitigation and adaptation measures and to address ongoing loss and damage. It is vital for countries in the global north to demonstrate their commitment to ensuring that all nations have the financial means to implement climate measures.

Blended finance – broadly defined as the combination of public concessional finance (finance with more generous terms than the market has to offer) with private or public resources – is often portrayed as a key financing mechanism to deliver the resources needed to fight climate change. However, the evidence base to support this is still very small. In the absence of any case studies where blended climate finance has had a positive impact on the local economy, communities and their environment, this briefing focuses on two high profile projects which have had negative impacts. They are the South Africa’s Just Energy Transition Partnership (JETP), and the IFC Scaling Solar Programme in Zambia.

Both of the projects are financed by the World Bank Group, but they are also two separate approaches to clean investment in climate (solar power and decarbonisation). Both demonstrate the need for caution in using blended finance for climate action because in each example the risks have been borne by recipient countries and their citizens. They are complex projects that have to be understood in the context of national and international political economy dynamics, and they also reflect problems associated with the governance of infrastructure more broadly, including lack of transparency and democratic accountability. Although we do not intend to extrapolate these problems to other projects and contexts, we do aim to illustrate some of the risks facing blended finance projects.

**South Africa’s Just Energy Transition Partnership (JETP)**

The Just Energy Transition Partnership (JETP) was announced at the 26th UN Climate Change Conference of the Parties (COP 26) in 2021 in Glasgow. It is essentially a financing mechanism which enables some developed countries to finance decarbonisation projects in developing countries. Different JETPs have been announced in South Africa, India, Vietnam, Indonesia and Senegal. The JETPs involve different partners and country partnerships which are impacted by the different political contexts of countries, what is at stake and the resources countries produce. The most striking thing about all JETPs is the commitment by Multilateral Development Banks (MDBs), DFIs and investors to fund large-scale country projects. The provision of adequate levels of concessional finance that lead to the successful implementation of projects without negative externalities, such as high costs to citizens or the public purse, is the real test of this commitment.
South Africa became the subject of a JETP because its electricity grid relies on coal for roughly 85 per cent of its generating capacity. That is one reason the country is currently the world’s 13th biggest emitter of carbon dioxide.

To date, it is this JETP that has attracted the most news and analyses, including by civil society organisations and the media. As a case study, the South African JETP is particular to the country’s own political economy context as well as its existing domestic energy resource matrix. Nonetheless, this case study also shows that the JETP model of blended finance and partnership is essentially based on the shared assumption of mobilising more private finance for decarbonisation. Lessons from the South African JETP are therefore applicable to all JETPs.

The South African JETP was launched through an International Partners Group (IPG) which constituted governments of France, Germany, United Kingdom, United States, and the European Union. They committed to mobilise an initial amount of US$ 8.5 billion from all sources of finance to support South Africa’s pathway to low emissions and climate-resilient development (See Table 1 for sources and financing instruments of South Africa’s JETP).

Table 1 Sources and Financing Instruments of South Africa’s JETP (USD million 2023-2027)

<table>
<thead>
<tr>
<th>Source/Programme</th>
<th>Grants/Technical Assistance</th>
<th>Concessional Loans</th>
<th>Commercial Loans</th>
<th>Guarantees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate Investment Funds (CIF)/ Accelerating coal Transition Programme (ACT)</td>
<td>50</td>
<td>2,555</td>
<td>0</td>
<td>0</td>
<td>2,605</td>
</tr>
<tr>
<td>EU-European Investment Bank</td>
<td>35</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
<td>1,035</td>
</tr>
<tr>
<td>France</td>
<td>3</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
<td>1,003</td>
</tr>
<tr>
<td>Germany</td>
<td>198</td>
<td>770</td>
<td>0</td>
<td>0</td>
<td>948</td>
</tr>
<tr>
<td>UK</td>
<td>24</td>
<td>0</td>
<td>500</td>
<td>1,300</td>
<td>1,824</td>
</tr>
<tr>
<td>US</td>
<td>20</td>
<td>0</td>
<td>1,000</td>
<td>0</td>
<td>1,020</td>
</tr>
<tr>
<td>Total</td>
<td>330</td>
<td>5,325</td>
<td>1,500</td>
<td>1,300</td>
<td>8,455</td>
</tr>
</tbody>
</table>

Source: Fitch Ratings (2022)

How much Private Finance is being Mobilised by JETP?

A delay in negotiations and implementation of JETP is a concern shared by most countries who are signatories of JETP. This concern is also accompanied by a lack of clarity of how targeted amounts will be mobilised in the next three to five years. According to a report by South Africa’s Presidential Climate Commission, the total investment and financing requirements of South Africa’s Just Energy Transition Investment Plan as a whole are estimated at USD98bn for the period 2023 to 2030. This figure far exceeds the initial promise of mobilising US$8.5 billion from external investors and donors. JETPs should therefore be seen as drop in the financing needs of each country and the amount mobilised needs to be adequately reported.

The issue of blended finance as a modality for JETP also needs to be contextualised within the broader changing economic, political and social situations regarding how energy transition is taking off in South Africa. Academic analysis shows that while new modes of external and internal finance are shaping the South African renewable energy sector to prioritise commercial bankability, risk minimisation and profit maximisation, there is little attention towards the evaluation of projects for their long-term socio-economic contribution, beyond financialised accumulation patterns.

Therefore, it should be remembered that JETP and the blended finance modality are just one element of the externally private financed energy transition process in South Africa and any analysis of how this project fares needs to be contextualised in conjunction with on-going investment patterns, policy changes within recipient countries.

Privatisation and Liberalisation of Energy

A detailed analysis of the project by the South African based organisation Institute for Economic Justice (IEJ) shows that the South African JETP is an expensive blending project with opaque financing mechanisms. A first issue is that the its blended financing model was contingent on the design of an Independent Power Producer (IPP) (an energy public-private partnership). IPPs usually operate to secure investor profits and bind states into long-term contracts for the purchase of electricity on set prices. This means that irrespective of the falling costs of renewable energy production globally, IPPs contracts continue to secure lucrative rates for investors in the long-run. In this context, the blended financing model subsidises the cost of capital for IPPs, encouraging risk-taking activities such as financial speculation in the secondary energy markets to secure additional sources of profit.
In addition to high costs the implementation of the South African JETP has also included policy reforms to liberalise the state-owned utility Eskom. While this problem is not particular to the JETP but an on-going governance issue in South Africa, there is also the need to contextualise the World Bank’s history of heavy privatisation and liberalisation in the country, which has been noted by civil society organisations as a contributor to South Africa’s exorbitant debt.  

Lack of transparency, risk of debt and limited grant element

The South African JETP has been consistently criticised for a lack of transparency. A significant proportion of the financing has not yet been formally programmed and it is unclear how targets for financing will be met. According to Fitch ratings, only around four per cent of the South African USD8.5 billion is provided through grants. The remaining constitutes commercial and concessional loans as well as guarantees on loans. This amounts to around two per cent of South African GDP, based on Fitch estimates. The JETP’s contribution to public debt and limited inclination towards grants is therefore a part of its design. The report by the South Africa’s Presidential Climate Commission, highlights the fact that grant funding in the JETP model is highly inadequate and there is no clarity on the nature of this funding. The same report notes that:

‘There is a risk that private sector investments in renewable energy will not take into account social justice issues – either because they are too costly or too complex. Questions around how the transition will cater to the energy demands of workers and communities in the informal sector are by and large unanswered. These gaps in social justice financing can be addressed through grant instruments’.

Is the South African JETP the best solution for mitigation?

Academic research on South Africa’s emerging renewable energy industry has shown that the transition from non-renewable to renewable energy, often framed as a linear and technocratic exercise, is in fact the opposite. South Africa’s energy matrix is a part of the country’s complex historical legacy and remains dominated by a handful of domestic monopolists as well as foreign investors. The turn towards renewables is deepening and extending this monopoly, especially as the renewable energy market is created to attract foreign investors for profit. The drive to attract even more finances for the JETP, beyond the existing commitments will lead to yet more procurements. From a climate finance perspective, there is a concern around attempts to meet the country’s climate goal on mitigation through a JETP. In fact, a simple upgrading of existing infrastructure could help achieve the climate goals at a much cheaper cost.

On the whole, the limitations of the blended financing model are clear for all to see when it comes to South Africa’s JETP. There is a big question about whether it is the right financing model for attracting and allocating finances for decarbonisation in South Africa and other countries.
The Scaling Solar programme was launched in 2015 by the IFC – the private finance arm of the World Bank – as ‘one-stop shop’ initiative to launch solar power in Zambia\(^{13}\). Its services include advisory and technical support to prepare and structure programs, introducing competitive bidding processes, standardising the relevant documents, and offering de-risking tools to make projects bankable (See Table 2, Table 3 and Figure 1 on financing information and Figure 2 on the guarantee structure of the project). Although Scaling Solar originally aimed to support 1,000 megawatts of solar power globally, to date, it has only delivered three solar electricity projects in three countries: Senegal, Zambia and Uzbekistan (combined capacity of 235 megawatts). All three projects remain heavily reliant on the countries’ public financial support.

### Box 1: Financing Information – Zambia’s Scaling Solar Programme

- **Bidder Consortium:** Two consortiums bid for two projects. The first included Neoen, a French company, and First Solar, a US company. They bid 6.02 cents per kilowatt hour to build a 54-megawatt plant. The second included Enel Green Power, a company partially owned by the Italian Government. It bid 7.84 cents per kilowatt hour for a 34-megawatt plant. Two projects were implemented in 2017 and 2018 respectively.

- The bidder consortiums provided US$24.5 million of equity investment, while the Zambian Government retained a 20 per cent interest in the project companies through its Industrial Development Corporation (IDC). Multilateral and bilateral DFIs provided 100 per cent of the US$81 million debt financing and rates were not publicly disclosed.

- The World Bank’s International Development Association (IDA) provided payment guarantees totalling US$5.7 million to offset the financial risk of signing a 25-year offtake agreement with ZESCO – the state-owned utility company.

- IFC provided interest rate swaps to mitigate interest rate risk. Bidders were offered MIGA political risk insurance but did not take it. USAID’s Power Africa provided $2 million to pay project fees for the Zambian Government.
Figure 1 Guarantee Structure of Zambia Scaling Solar Programme and Details of IDA Guarantee

IDA Payment Guarantees
Under the PPA, ZESCO is required to provide payment security via a letter of credit (LC). To help ZESCO provide that security, the Zambian government requested IDA to provide payment guarantees. Without IDA guarantees, ZESCO would not be able to find long-term LCs and many sponsors and lenders, both development finance institutions and commercial banks, would not be able to participate.

IDA Loan Guarantees
The loan guarantees are offered to commercial banks to extend debt finance to the solar IPPs. The World Bank would backstop the ability of the IPP to repay commercial banks in the event the GRZ or ZESCO fail to meet their contractual obligations. Thus, the commercial banks would be incentivised to provide longer tenors and lower interest rates given the improved credit risk rating.

The programme’s investment in Zambia became controversial, following a detailed study, undertaken by the think-tank Energy For Growth Hub. The study found that the project suffered from a multitude of issues which originated in a lack of transparency, but also encompassed high costs to the Zambian public sector and taxpayers in the global north as funders of DFIs.
The issues are explained below:

1. **Implicit and explicit subsidies: Lack of transparency and high costs**

The study identified a lack of transparency in some of the subsidies. Table 4 provides a brief overview of explicit and implicit subsidies applied to the project. (Table 4).

### Table 4 List of Explicit and Implicit Subsidies provided to Zambia’s IFC Scaling Solar

<table>
<thead>
<tr>
<th>Explicit Subsidies</th>
<th>Implicit Subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subsidy 1: Cheap debt financing from DFIs:</strong></td>
<td><strong>Subsidy 4: Extensive project preparation by IFC</strong></td>
</tr>
<tr>
<td>A first explicit subsidy was provided by the DFI to the private companies, which enabled the project to offer low-energy tariffs. Both projects received financing from IFC and the IFC Canada Climate Change Program. The Enel project received subsidies from EIB. Neoen/First Solar program received subsidy from OPIC (now DFC). Whilst blending is designed to de-risk the private sector, in this case the details of the subsidy were not publicly disclosed and it was not possible to match the scalability of private finance mobilised.</td>
<td>IFC advisory services provided extensive project preparation support. The Project Implementation and Completion Report notes US$68,020 in staff costs. USAID’s Power Africa paid US$2 million on behalf of the Zambian Government in fees upon financial close.</td>
</tr>
<tr>
<td><strong>Subsidy 2: Post-award tax renegotiation</strong></td>
<td><strong>Subsidy 5: ‘Halo Effect’ political risk mitigation</strong></td>
</tr>
<tr>
<td>USAID’s project evaluation of Scaling Solar claims that Neoen deliberately submitted an aggressive bid and then successfully renegotiated the terms with the IDC and the Zambian Government afterwards, giving Neoen tax incentives beyond those offered to all bidders in the auction.</td>
<td>Multilateral and bilateral lenders provide meaningful implicit political risk mitigation, sometimes called the Halo Effect in project finance textbooks. Multilateral institutions enjoy preferred creditor status in restructurings and defaulting on their loans can endanger other sources of cheap financing. The World Bank and IFC directly intervened to ensure payment to two developers of the project. This meant that, while these developers were preferred for payment, arrears were accumulated against other more expensive IPPs.</td>
</tr>
<tr>
<td><strong>Subsidy 3: IDA payment guarantee</strong></td>
<td><strong>Subsidy 6: Land costs</strong></td>
</tr>
<tr>
<td>IDA provided a payment guarantee of US$5.7 million, nearly a quarter of the private developers’ $24.5 million equity investment.</td>
<td>According to the 2017 Scaling Solar Project Paper, the IFC helped the government choose a project site near an existing large electricity substation, providing sufficient capacity to deal with the power supplied by the new solar plants and substantially reducing costs. Unlike the other subsidies mentioned, this comes from the government.</td>
</tr>
</tbody>
</table>

Source: Energy for Growth Hub (2023) – Solar Can’t Scale in the Dark

The six explicit and implicit subsidies point to the fact that blended finance models require extensive support and, without transparency, it is not possible to evaluate the outcome and development impact of the projects.
2. Cost to the public

Based on the financing model of Zambia’s Scaling Solar Program and numerous implicit and explicit subsidies, it is clear that the project’s cost to the public was much higher than stated. As Chares Kenny of the Centre for Global Governance (CGD) notes, in addition to stated subsidies, calculation estimates lean towards a figure of more than US $3.50 of public international finance to bring in each dollar of private finance.17 Far from mobilising more private finance for climate, the model actually points towards the extraction of even more public money to invest in a failed project.

3. Contribution to debt

Zambia’s Scaling Solar Programme was being implemented at the height of the country’s debt crisis. While the report by Energy for Growth Hub clearly mentions that Scaling Solar’s contribution to Zambia’s US$1.2 billion debt in power purchase agreements (PPA) (as of June 2022) could not be clearly established, it also raises the fact that PPAs contain significant contingent obligations which are not made public in spite of their adverse implications on public finances. In short, the privacy of PPA contracts means it is not possible to ascertain the contribution of such projects to public debt. The secrecy around contracts and the fact that the Zambian economy was under severe exogenous shocks including that of Covid-19 also runs contrary to the logic of implementing and proliferating blended finance projects when global debt distress continues to haunt many countries of the global south.

4. Developmental Outcome?

The developmental outcome of the project, beyond scalability of private finance, also remains undetermined. In fact, as the review report of IFC Scaling Solar conducted by USAID Management Support and Technical Analysis Services states,18 issues around land titles proved to be a major barrier to the deployment of the second round programme, as prior resettlement issues of local communities was not resolved. The review report recommends that:

‘Clear land titles and land acquisition should be documented in the bid proposals (or design phase) before winning bidder contracts are awarded. Relying on government counterpart agencies providing the land, as is a design feature of Scaling Solar, adds risks if the counterpart agency does not have clear title to suitable large areas of land in suitable locations that are close to utility substations’.

The project was also being rolled out as Zambia’s economic situation deteriorated and debt burdens mounted. Matching the high derisking costs of the projects to Zambia’s growing problem of indebtedness shows that the role of blended finance needs to be contextualised within the broader role of projects and associated structural risks. The Zambian project’s legacy casts an enduring shadow across the IFC’s entire programme as the same low energy tariff was not made available to other African countries. While this is a core issue of transparency, the IFC’s official response was to disregard it as matter of ‘resetting price expectations’.20

Conclusion

Ultimately, these case studies illustrate the serious failings of some blended finance for climate action projects thus far. They lack transparency, contribute towards indebtedness, have negative impacts on communities and often do not prove to be the most effective solutions for climate mitigation. Even when failures became evident, their implementation continued. Moreover, such financing models continue to be implemented on a global level without attempts at reform. The replication of risks across countries at a time of extreme geopolitical uncertainty, debt distress and inflation needs to be carefully assessed.

It is clear that to address the climate crisis, blended finance is not the silver bullet it is sometimes made out to be. Much more public finance in the form of grants and highly-concessional finance that follows responsible borrowing and lending principles is still urgently needed.
Endnotes


13 Scaling Solar Website https://www.scalingsolar.org/

14 Kate Bayliss, Kate and Pollen, Gabriel Pollen (2021) The power paradigm in practice: A critical review of developments in the Zambian electricity sector. World Development


19 Ibid

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