

Unpacking the 'bridge fuel' myth: Why fossil gas is bad economics for the Global South



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Authors: Fran Witt (Climate & Energy Justice Collective);
Frederick Daley and Charles Lawrie (Fieldwork, CIC);
Rajneesh Bhuee (Recourse).

This report has been greatly strengthened by feedback and
inputs from Izzah Batool and Majid Bilal, Indus Consortium;
Karabo Mokgonyana, Power Shift Africa; Dean Bhebhe and
Hope Dlamini, Africa Change Lab; Smith Nwokocha, Quest
for Growth and Development Foundation; Purva Jain, IEEFA;
Mehedi Hassan, CLEAN; Meyer Van der Berg, Bowmans Law
and University of Capetown; Stefen Afereno, HOMEf; Nasreen
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For further information on the issues raised in this report please
contact: Recourse, Kraijenhuisstraat 137A, 1018 RG, Amsterdam,
The Netherlands.

info@re-course.org

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Acronyms

AfDB	African Development Bank	LNG	Liquefied natural gas
AIIB	Asian Infrastructure Investment Bank	LPG	Liquefied petroleum gas
BOGA	Beyond Oil and Gas Fund	MDB	Multilateral development bank
CCDR	Country Climate and Development Report (World Bank)	MIGA	Multilateral Investment Guarantee Agency
CCGT	Combined cycle gas turbine	MMcfd	Million cubic feet per day
CO₂	Carbon dioxide	MTPA	Million tonnes per annum
DPF	Development policy finance	MW	Megawatt
ECA	Export Credit Agency	NAMCOR	National Petroleum Corporation of Namibia
FI	Financial intermediary	NDC	Nationally Determined Contribution
FSRU	Floating Storage and Regasification Unit	NLNG	Nigeria LNG Limited
FX	Foreign exchange	NNPC	Nigerian National Petroleum Corporation
GDP	Gross domestic product	NWPGCL	North-West Power Generation Company Limited
IDA	International Development Association	PBL	Policy-based lending
IEA	International Energy Agency	PFI	Public finance institution
IEEFA	Institute for Energy Economics and Financial Analysis	PKR	Pakistani Rupee
IFC	International Finance Corporation	RBE	Renewables-based economy
IMF	International Monetary Fund	SACE	Servizi Assicurativi del Commercio Estero (Italian Export Credit Agency)
IPP	Independent power producer	SDG	Sustainable Development Goal
IRP	Integrated Resource Plan	Solar PV	Solar photovoltaic technology
JET-P	Just Energy Transition Partnership	SREDA	Sustainable and Renewable Energy Development Authority (Bangladesh)
JICA	Japan International Cooperation Agency	TA	Technical assistance
kWh	Kilowatt-hour	WBG	World Bank Group
LCOE	Levelised cost of electricity		

Executive summary

Multilateral development banks (MDBs) continue to finance fossil gas on the premise that it is a cost-effective 'bridge fuel' to a renewable energy future — an argument that is outdated and untrue. In March 2026, the closure of the Strait of Hormuz removed nearly 20% of global Liquefied Natural Gas (LNG) supply and pushed Asian spot prices up 55% in a single month, a shock entirely outside affected countries' control. Fossil gas is not simply a climate liability; it is a macroeconomic risk that is increasingly inconsistent with the development objectives MDBs exist to serve.

The economic case for gas expansion is collapsing under the weight of the evidence. In 2024, 91% of newly commissioned renewable capacity already produced electricity more cheaply than the cheapest fossil alternative. Gas infrastructure sanctioned today is typically built to run for 25 to 40 years, well beyond the point at which the IEA's own Net Zero pathway would allow new oil and gas fields to remain viable. Four of the main economic risk channels are:

➔ **Public debt:** Gas and LNG infrastructure is capital-intensive and commonly financed through sovereign guarantees and take-or-pay contracts that convert commercial risk into public liability. Pakistan's gas-sector circular debt of approximately \$12bn by 2026 shows how quickly these obligations compound into a fossil fuel debt trap that constrains fiscal space for years.

➔ **Foreign exchange:** Because LNG is priced and contracted in US dollars, import-dependent countries face commodity price volatility and currency depreciation at the same time, transmitting external shocks directly into balance-of-payments pressure.

➔ **Cost competitiveness:** Gas assets sanctioned now risk being stranded before they can recover their capital costs, as renewable costs continue to fall.

➔ **Gender equality:** When governments divert budgets to service gas-related debt, women, who manage most household energy spending and unpaid care work, are usually the first to shoulder the resulting cuts to health, education and social protection.

So why do MDBs continue financing gas at all? The answer is institutional rather than economic. Many MDBs still treat gas as necessary for reliable baseload power, an argument that is increasingly outdated, since renewables paired with battery storage now match or beat gas on dispatchability at lower and still-falling cost. Decades of sovereign lending relationships with state utilities have built institutional and financial path dependency that has been slower to change than the underlying economics. Geopolitical and commercial interests too often win over the strongest economic case for renewable alternatives.

MDBs financed \$2.7bn in fossil gas and LNG projects between 2021 and 2024 through direct lending alone, and the joint MDB Paris alignment framework still does not exclude gas financing outright. Indirect lending — sovereign guarantees, political-risk insurance, financial intermediary lending and technical assistance — carries gas exposure with weaker transparency than direct project finance. \$139bn in MDB policy-based lending between 2015 and 2020 has repeatedly conditioned energy-sector reform loans on market liberalisation that opens the door to new gas investment.

Five country case studies show how these risks play out in practice. In **Bangladesh**, debt-financed LNG expansion has produced the Rupsha plant, a stranded asset that earns capacity payments for electricity it often cannot generate for lack of fuel.

Pakistan shows what happens when rigid LNG contracting meets a household-led solar boom that has already left the country holding LNG it cannot use, while circular debt continues to grow. **South Africa's** proposed gas expansion is uncompetitive against renewables on the government's own cost data, and is increasingly dependent on public finance, including pension capital, to proceed.

Namibia demonstrates what MDB absence from fossil fuel financing can achieve when maintained as deliberate policy, though the emergence of the Africa Energy Bank means that absence cannot be assumed to hold.

Nigeria illustrates the export-access paradox most clearly: One of the world's largest LNG exporters remains home to the world's largest electricity access deficit, with projects such as NLNG Train 7 exposing public finances to future stranded-asset risk while doing little to close that gap.

The distinction between export-oriented LNG infrastructure and domestic energy access is also critical. Many large MDB-backed LNG projects primarily serve export markets or industrial users rather than energy-poor households. Consequently, the developmental benefits are frequently overstated. Rather than enhancing universal energy access, a core commitment made by the MDBs under Sustainable Development Goal 7, these projects can deepen debt burdens, increase import dependence, and perpetuate unequal integration into global energy markets. From an energy sovereignty perspective, this reproduces structural dependency and constrains the ability of countries in Asia, Africa, and Latin America to pursue sustainable, renewable energy transitions.

The recommendations for MDBs: End all direct and indirect finance and policy support for fossil gas; eliminate guarantees for gas projects; require full transparency for financial intermediary lending; prioritise renewable energy paired with battery storage; make gender impact assessment mandatory for all MDB-supported energy reforms; and support the audit, restructuring and, where justified, cancellation of illegitimate energy-sector debt.

The evidence is unequivocal. Continuing to finance fossil gas is not a prudent development strategy. It is a costly misallocation of scarce public resources. In today's energy landscape, gas is bad economics.

Introduction

Multilateral development banks (MDBs) continue to justify investments in fossil gas through a development and energy transition narrative, framing it as a 'bridge fuel' or 'transition fuel' capable of supporting industrialisation, energy access, and grid stability while countries transition away from coal and oil. MDBs continue to finance fossil gas infrastructure, including liquefied natural gas (LNG), through direct lending, policy advice, and strategic planning frameworks, even as the relative economics of renewable energy have shifted markedly over the past five years.

Within MDB strategy documents such as the World Bank Group's (WBG) Country Partnership Frameworks, Country Climate and Development Reports (CCDRs) and National Energy Compacts within Mission 300 (its energy access initiative in sub-Saharan Africa), gas is frequently presented as necessary for baseload electricity generation and economic growth, particularly in rapidly urbanising economies across Asia and Africa.¹² This pattern persists in part because MDB energy sector strategies continue to permit gas financing under specific conditions, and in part because of institutional legacies, including staff expertise and infrastructure built up around fossil fuel lending over decades.

Climate commitments across the MDB system are not moving in a single direction: Some institutions have strengthened them in recent years, while others, including the World Bank, have shown signs of retrenchment. MDBs'

joint Paris alignment methodologies do not exclude gas financing outright, so continued gas lending is not, from the banks' own perspective, a breach of those commitments, though it falls short of the 1.5 degree Celsius-consistent pathways true alignment requires.³

This report examines the assumptions underpinning MDBs' continued support for gas as a 'bridge fuel' and asks whether those assumptions still hold for the countries receiving this finance. It distinguishes between gas-exporting and gas-import-dependent economies, and traces how MDB interventions shape fiscal resilience, energy sovereignty and impact on the just transition to sustainable renewable energy systems (see boxes). Drawing on examples from Asia and Africa, the report evaluates the financial instruments, policy reforms, and analytical frameworks through which MDBs enable gas expansion, and sets these against the macroeconomic, geopolitical, and climate risks that accompany long-term dependence on fossil gas.

Section 2 looks at the risks associated with gas infrastructure, focusing on debt, foreign exchange (FX), market volatility, cost competitiveness and stranded assets, with a focus also on the gendered impacts. Section 3 compares this with the economic imperative of renewable energy technologies. Section 4 examines why and how MDBs are still supporting gas. Evidence is presented in the form of country case studies in Section 5, covering Bangladesh, Pakistan, South Africa, Namibia and Nigeria. The policy recommendations for IFIs are listed in the final section.

Energy sovereignty refers to the ability of a state, community, or region to determine its own energy systems, sources, and pathways, free from undue external control over infrastructure, financing terms, or resource flows. It is a contested and evolving concept; this report uses it to capture the degree of autonomous decision-making countries retain over their energy transitions, distinct from energy security or energy access alone.

Sustainable renewable energy means a 100% renewable energy future based on diverse and decentralised renewable energy systems that are affordable, accessible and reliable, protect people and the environment, and ensure meaningful participation and benefits for communities, women and youth.



A community level flood warning system in Bangladesh. Photo by Amir Jina on Flickr. License CC BY-NC-ND 2.0.

The economic risks of fossil gas

Public debt and fiscal exposure

Far from being a low-risk transitional investment, gas and LNG infrastructure generate large-scale public debt exposure, constrain fiscal space, and entrench structural inequalities in access to capital and decision-making power in global energy finance. These are not isolated risks but systemic features of contemporary fossil fuel expansion, as the country case studies in this report demonstrate.

The **capital intensity of gas and LNG** infrastructure is a first-order fiscal concern. LNG export terminals typically cost \$5–10bn for a mid-sized facility, while large-scale regasification terminals range from \$750m–\$10bn, and Floating Storage and Regasification Units (FSRUs) offer alternatives ranging from \$250m to over \$450m, depending on capacity and location.⁴ Pipeline networks can add tens of billions more over time. These upfront costs must be recovered over multi-decade asset lifespans, heightening the risk that facilities become stranded before their capital is repaid, particularly as cheaper renewable alternatives continue to fall in cost.⁵

The **capital requirements** are frequently underwritten by public balance sheets or public–private partnerships, meaning that states absorb a significant portion of the downside risk.⁶ Most LNG financing is channelled through public finance institutions (PFIs),⁷ which include Export Credit Agencies (ECAs) and national and multilateral development banks that provide long-term finance, credit and financial services to finance and derisk the energy projects deemed too risky by private creditors. In Bangladesh alone, the WBG, ADB and AIIB channelled more than \$2bn in loans, guarantees and technical assistance to gas infrastructure between 2020 and 2026 (see Bangladesh case study). Through loans, guarantees and insurance, PFIs mobilise additional private capital and sustain high-risk projects. This support is especially important during the construction of LNG infrastructure.⁸

At a global level, the International Energy Agency (IEA) has warned that continued fossil fuel infrastructure expansion risks creating trillions of dollars in **stranded assets** under net-zero pathways, with gas infrastructure particularly exposed due to its long technical lifespan.⁹ Stranded assets are investments that lose economic value or become

liabilities before the end of their expected life, typically because of shifts in policy, markets, or technology that reduce demand or profitability.

Recent experience in emerging markets in Asia illustrates this risk in practice. For example, in Pakistan, LNG-to-power investments have faced underutilisation and financial stress as high and volatile import prices, combined with the rapid expansion and falling costs of domestic renewable energy, have reduced demand for gas-fired generation. This dynamic can leave LNG import terminals and associated **power infrastructure operating below capacity**, raising the risk that they become effectively stranded before recovering their costs.¹⁰

Sovereign guarantees further amplify this exposure. Guarantees for gas projects are formal commitments by a national government, sometimes made at the advice of MDBs, to cover payments or fulfil contractual obligations if a state-owned entity (such as a national oil company or utility) defaults. This differs from guarantees issued directly by IFIs such as the Multilateral Investment Guarantee Agency (MIGA), which insure private investors against political and commercial risk rather than binding the state itself. Infrastructure-related guarantees often function as contingent public liabilities that add 10–30% of the total project value to a government's hidden debt.¹¹ These liabilities are usually absent from official debt statistics, yet they materialise during demand shortfalls or currency shocks. This has contributed to unexpected fiscal crises in several emerging economies, like Bangladesh and Pakistan (for example, MIGA's \$407m guarantee for the Bhola-2 gas power plant in Bangladesh), particularly where LNG imports are denominated in US dollars, increasing vulnerability to exchange rate volatility.¹²

Gas and LNG contractual rigidities further deepen fiscal lock-in. 'Take-or-pay' agreements commonly require utilities to purchase 70–90% of contracted LNG volumes regardless of actual demand.

'Capacity payment' schemes are mechanisms designed to ensure electricity grid security by paying power generators to be available, rather than just for the energy they produce. When state-owned utilities cannot afford these payments, they can accrue 'circular debt' (see box), a cascade of unpaid liabilities throughout the energy sector that the government must ultimately bail out, as seen in Pakistan.¹³

Circular debt is the accumulation of unpaid financial obligations across the energy sector, where one entity's inability to pay (such as consumers, utilities, or governments) prevents others in the supply chain from meeting their own payment obligations, creating a cycle of persistent debt that undermines investment and energy system reliability.

Together, take or pay obligations and capacity payments can create significant and inflexible financial commitments for utilities and governments, particularly where gas demand is lower than forecast or fuel prices rise. Such obligations can place pressure on national energy budgets and crowd out spending on other public priorities, with particularly severe implications in fiscally constrained economies where energy subsidies already exceed health or education spending.¹⁴

The expansion of LNG infrastructure and dependency on imported LNG are increasingly becoming sources of **fiscal pressure**, leading to a measurable erosion of fiscal space in many Global South countries with reduced capacity to manage future economic shocks or finance cleaner energy alternatives.¹⁵

Reliance on foreign-denominated fossil fuel infrastructure locks Global South nations into a '**fossil fuel–debt trap**', creating structural external dependencies that severely constrain sovereign monetary and fiscal autonomy.¹⁶ The result is not development, but insurmountable fiscal constraint disguised as energy investment.

These fiscal pressures compound the FX risks explored in the next section, where LNG import costs can strain central bank reserves and trigger the balance-of-payments crises and austerity measures that hit lower-income and vulnerable groups hardest.^{17 18 19}

Foreign exchange and LNG import risk

FX risks associated with LNG imports are not merely technical financial challenges but structural features of an unequal global energy system. LNG dependence embeds importing countries, particularly in the Global South, into volatile global markets while redistributing macroeconomic risk onto the public. This means that the risks of global LNG markets, currency systems, and resulting energy pricing end up being borne by ordinary people rather than the actors who generate or profit from those risks.

A central driver of this vulnerability is **LNG price volatility**. The global gas market has become increasingly financialised and exposed to geopolitical shocks, as demonstrated by the major supply shock caused by the West Asia crisis in 2026.²⁰ The temporary loss of nearly 20% of global LNG supply triggered price volatility, pushing gas prices in Asia (up 55% in March 2026) and Europe (up 34% in March 2026) to levels unseen since the 2022–23 energy crisis and forcing demand adjustments. Infrastructure attacks reduced domestic gas availability, while liquefaction damage weakened medium-term global LNG supply outlook.²¹

The expansion of **spot markets (grown significantly as buyers sought flexibility** — see box) has intensified instability. In 2026, Pakistan experienced double-digit inflation exceeding 27%, falling FX reserves, and significant current account deterioration linked directly to rising LNG import costs.²²

Spot markets are markets in which commodities are traded for immediate or short-term delivery, with prices determined by current market conditions. Unlike long-term supply contracts, which often provide greater price certainty, spot market purchases of LNG cargoes expose importing countries to fluctuations in international gas prices and supply availability.

These pressures are further intensified by **foreign currency exposure**. This is the same FX risk already introduced above, now expressed directly through the currency LNG is traded in: US dollars, creating structural dependence on access to foreign exchange reserves. As a result, when domestic currencies depreciate against the US dollar, the local-currency cost of imported LNG rises even if international gas prices remain unchanged, amplifying fiscal and balance-of-payments pressures.²³ This interaction between commodity price volatility and exchange rate fluctuations is well established, with energy-importing economies bearing the greatest burden of external shocks through higher import costs, worsening trade balances, and reduced fiscal space. More broadly, because international energy trade is largely denominated in US dollars, energy-importing countries must continually secure foreign currency through exports, external borrowing, or drawing down foreign exchange reserves to finance essential fuel imports. For many developing economies, this creates a structural dependence on external finance, reinforcing debt vulnerabilities and limiting governments' capacity to invest in domestic development.

These interconnected risks are not incidental but systemic. LNG deepens exposure to volatile markets and entrenches external dependency. In contrast, reducing fossil fuel import dependence, particularly through finance for sustainable renewable energy, can mitigate macroeconomic vulnerability and enhance energy sovereignty and security.²⁴

Fossil fuel-induced volatility in electricity tariffs and costs

In many emerging economies, **electricity tariffs** (the pricing structures energy suppliers use to charge customers for electricity consumption) are politically constrained and do not reflect the full cost of supply, particularly where gas-fired generation depends on imported fuel. This creates chronic tariff gaps that must be filled through public subsidies or utility debt. Globally, fossil fuel fiscal subsidies were \$725bn (0.6% of GDP) in 2024,²⁵ with a significant share linked to electricity and gas price stabilisation.²⁶

Pakistan and Bangladesh illustrate the structural nature of this fiscal pressure. In Pakistan, circular debt in the power sector surpassed PKR 2.6tn (\$9.3bn equivalent) in 2025, driven largely by high fuel costs and under-recovery of tariffs.²⁷ Similarly, Bangladesh has faced mounting **fiscal pressure due to LNG imports**, with energy subsidies rising sharply as global gas prices spiked in 2025 (see case study).

These subsidy regimes are part of the '**fossil fuel-debt trap**'. Public budgets are frequently diverted to sustain gas-based systems, crowding out investment in decentralised renewables and social services, as seen in the country case studies in this report. Where governments seek to reduce gas subsidy burdens, higher import and generation costs are typically passed on to consumers through increases in gas or electricity tariffs: Between 2021 and 2024, electricity tariffs rose by over 50% in several countries, including Pakistan, Kenya and Ghana, largely reflecting increases in fuel costs and IMF-supported reforms that required governments to reduce energy subsidies and implement cost-reflective tariffs, illustrating how dependence on imported fossil fuels can translate sovereign debt pressures into higher consumer energy costs.^{28 29}

This pass-through has profound social consequences. In sub-Saharan Africa,

households already spend 10–30% of their income on energy, far above affordability thresholds.³⁰ As governments pass rising energy costs on to consumers through higher tariffs, many households respond by reducing electricity use or switching to cheaper, informal energy sources such as diesel generators, charcoal, fuelwood, and kerosene. While these alternatives provide short-term access to energy, they are generally more expensive per unit of useful energy, produce higher levels of local air pollution and greenhouse gas emissions, and increase health and environmental risks, particularly for poorer households.³¹ In Argentina, rising energy tariffs following subsidy cuts have compressed disposable income and undermined households' ability to meet payments, contributing to rising arrears and broader financial distress, while austerity measures have triggered widespread social protest. Overall, women, children and other marginalised gender groups tend to shoulder the sharpest impact of these cost increases, through reduced spending on food, health and education.³² A better-designed approach would pair subsidy reform with targeted protection for low-income households and reinvestment in renewables, rather than an abrupt cut with no protection.³³

Critically, **cost pass-through mechanisms** are embedded within many power sector reform programmes supported by IFIs, as in Pakistan's IMF-linked tariff reforms, reflecting a policy emphasis on cost-reflective tariffs, fiscal consolidation, and private sector participation. While intended to improve the financial viability of utilities, these reforms can increase consumer exposure to volatile international fuel prices, particularly in electricity systems reliant on imported LNG, where changes in global gas prices and exchange rates are rapidly transmitted into domestic electricity tariffs.³⁴ This model shifts the burden of global gas price volatility onto populations least able to absorb it, effectively transforming electricity from a public good into a means of financial extraction.

Gas is bad economics for women

Fossil gas systems disadvantage women through three connected mechanisms: Women disproportionately manage household energy and unpaid care work, so cost and supply shocks land on them first; capital-intensive gas investment is male-dominated, excluding women from its economic benefits; and public spending diverted to gas subsidies and debt crowds out the health, education and social services women rely on most.

The rapid expansion of LNG, liquefied petroleum gas (LPG), and fossil gas infrastructure has diverted investment away from renewable alternatives while locking countries into debt-intensive, import-dependent systems.³⁵ LNG import dependence exposes economies to volatile global markets, with price shocks passed onto households through regressive tariffs. Tariff gaps generate **unsustainable subsidy burdens**; cost pass-through exposes households to international price shocks; and the resulting impacts are deeply regressive and gendered.³⁶

Women, especially in low-income and female-headed households, absorb these costs as primary managers of household energy, often forced to cut spending on food, healthcare, and education.³⁷ Far from expanding equitable access, evidence shows many fossil gas projects fail to reach energy-poor communities while imposing significant local harms, including land dispossession, pollution, and health risks that disproportionately affect women.^{38 39}

Volatility in LNG markets also drives blackouts and energy rationing, with cascading gendered impacts. Energy unreliability increases unpaid labour, as women compensate for disrupted services in the home and community. It also undermines sectors where women are overrepresented: Schools lose teaching hours, healthcare systems, especially maternal services, become less reliable, and women-owned small businesses face reduced operating hours and income loss due to limited financial resilience.⁴⁰

LPG, often promoted as a clean cooking solution, reveals further contradictions. While it can reduce indoor air pollution, its affordability is highly volatile. Rising LPG prices frequently push poorer households back to biomass fuels, reversing health gains and reinforcing energy insecurity.⁴¹

Moreover, gas investments are capital-intensive and male-dominated, excluding women from economic benefits while exposing them to environmental and social costs.⁴²

Taken together, the global gas model reflects a system designed for short-term financial returns rather than long-term social welfare. In practice, this means women absorb the costs of that model first: Through austerity-driven cuts to the services they rely on, price shocks passed on to household budgets they manage, and the unpaid labour needed to fill the gaps when formal energy systems fail. Gas is therefore not only environmentally unsustainable, but fundamentally bad economics for women.

Cost competitiveness and stranded assets

The economic case for continued gas expansion is collapsing under the weight of empirical evidence. On a levelised cost of electricity (LCOE) basis, renewable energy has decisively outcompeted fossil gas across most markets.

According to the International Renewable Energy Agency, 91% of newly commissioned renewable capacity in 2024 produced electricity at lower cost than the cheapest fossil fuel alternative.⁴³

In 2023, utility-scale onshore wind averaged \$0.034/kWh, and solar PV \$0.043/kWh, undercutting fossil-based generation even before accounting for fuel price volatility and carbon costs.^{44 45} In 2026, the global unsubsidised LCOE for Combined Cycle Gas Turbines (CCGT) ranged from \$0.051 to \$0.129/kWh, with an average benchmark sitting at roughly \$0.090/kWh.⁴⁶ Gas peaking plants are less efficient plants that cycle on and off quickly to handle rapid peaks in demand. Because they run less frequently, their costs are significantly higher, ranging between \$0.144 and \$0.276/kWh.

Multilateral development banks employ analytical frameworks centered on the 'emissions coefficient' — the carbon intensity of power generation — to justify project selection. Though framed as a technical benchmark, this focus serves to marginalise the decisive economic evidence favouring sustainable renewable alternatives. By prioritising comparisons with coal, MDBs frequently overlook the LCOE advantage

of solar and wind. This bias is compounded when renewable technologies are excluded or undervalued during alternatives analysis, preventing a robust comparison with cheaper, sustainable energy. Furthermore, such metrics fail to capture systemic lifecycle risks, including methane leakage across the global gas and LNG value chain.^{47 48}

At the same time the IEA's Net Zero Roadmap indicates that no new oil and gas fields are compatible with a 1.5°C trajectory.⁴⁹ Yet gas infrastructure, including pipelines, LNG terminals and power plants, are typically built with lifespans of 25–40 years. This creates a structural contradiction: Assets sanctioned today are already becoming obsolete well before the end of their economic life (see the Pakistan case study). In effect, MDBs, governments and investors are locking in systematic overinvestment in infrastructure that must be prematurely retired.

Demand uncertainty further amplifies this risk. Electrification, efficiency gains, and the rapid scaling of renewables are eroding long-term gas demand projections. In regions pursuing aggressive decarbonisation, gas plants are increasingly relegated to low utilisation 'peaking' roles (operating only during times of peak electricity demand or when renewable output is low), undermining their profitability. This produces overcapacity (when supply capability of gas exceeds demand) and declining load factors (when gas-fired power plants are running intermittently), a classic precursor to stranded assets.⁵⁰

The consequences are already visible. The global LNG buildout, justified on outdated demand forecasts, faces a narrowing market window, with many projects unlikely to recover capital costs, Mozambique among them, as detailed below. Renewable alternatives offer faster, cheaper, and more socially inclusive pathways to energy access.^{51 52}

Stranded asset risk is not merely financial, it is legal and political. Communities affected by gas extraction and infrastructure are increasingly pursuing litigation over environmental damage, human rights abuses, and climate liability. The Mozambique LNG project, led by TotalEnergies and financed by a consortium of ECAs, alongside the African Development Bank (AfDB), has been associated with worsening insecurity and allegations of human rights abuses involving security forces protecting the project. These are human rights and security concerns rather than climate liability claims, and they have exposed investors to significant reputational and legal risks while delaying construction and increasing project costs. Separately, as climate litigation expands globally, fossil fuel developers face growing liability for both direct harms and their contribution to global emissions.⁵³

The risk of asset stranding is substantial. Train 7, the expansion of Nigeria LNG's export terminal on Bonny Island designed to increase

LNG production capacity by around 35%, may be unable to recover its capital costs at commercially viable utilisation levels within the next 10–15 years. This would shift the financial burden onto Nigeria's 49% public equity stake, project lenders, and the Niger Delta communities that continue to bear the project's environmental and social impacts (see Nigeria case study).

Fossil gas is not a 'bridge' but a dead-end:

Economically inefficient, socially unjust, and fundamentally incompatible with climate stability. The rational economic pathway is clear: Accelerate renewable deployment, avoid locking in stranded assets, and redirect capital toward a just and equitable energy transition that would ensure energy security and expand energy access in line with United Nations' Sustainable Development Goal 7 (SDG7).



Solar panels in Karachi, Pakistan. Photo by Hexzain on Shutterstock.

The economic imperative of renewables

The structural shift in energy economics

A rapid shift to sustainable renewable energy is urgently needed, not merely as a climate goal, but as a mechanism to regain economic sovereignty and reduce the need for foreign-denominated debt. Renewable energy offers a fundamentally different economic model from LNG and gas infrastructure. While solar and wind projects require upfront investment, they have no fuel costs, low operating expenses and rapidly declining technology costs. Since 2010, the global levelised cost of electricity has fallen by around 90% for utility-scale solar PV and around 70% for onshore wind, making renewables the lowest-cost source of new electricity generation in many regions.⁵⁴ Their modular nature and relatively short construction times also reduce financing requirements and allow capacity to be expanded incrementally, limiting debt accumulation and increasing investment flexibility.

The transition from a legacy 'extraction and combustion' model to a renewables-based economy represents a fundamental structural transformation, not a mere technical adjustment. This shift redefines the

global economic base, moving from volatile commodity-based extraction to stable, technology-driven production. This strategic necessity for long-term fiscal stability is underpinned by the dramatic decline in costs of renewables since 2010: Solar PV (87% decline), onshore wind (55%), and battery storage (93%).⁵⁵

As discussed above, these reductions have fundamentally altered the LCOE. This inherent cost advantage establishes a superior economic foundation for national energy sovereignty.

Some countries have successfully reduced their exposure to global gas price volatility in recent years. Spain provides a clear example — rapid growth in wind and solar has reduced the role of gas in electricity generation, with low carbon sources accounting for 79% of electricity generation during the period assessed in 2026, compared with 16% from gas. Gas set the electricity price in only 9% of hours. By contrast, gas supplied 53% of Italy's domestic generation during the same period, with gas setting the electricity price much more frequently and leaving consumers more exposed to international gas price volatility.⁵⁶

For Global South countries, renewable based economy principles offer illustrative examples of how this resilience can be generated:

- ➡ In Pakistan's agricultural sector, solar has displaced diesel at scale: Between 2022 and 2025 the share of tubewells running on diesel fell from 79% to 28%, as solar-powered irrigation pumps surged from near-zero to 61% of the total, avoiding an estimated 1.9bn litres of diesel a year. This displacement is already showing up at the macro level. Pakistan avoided more than \$12bn in oil and gas imports cumulatively by February 2026, easing the import-bill, trade-balance and foreign-exchange pressures that dependence on imported fuel creates, and strengthening macroeconomic resilience.⁵⁷
- ➡ In September 2025, Nigeria became the fifth country and the first major African oil and gas producer to establish a programme under the Beyond Oil and Gas (BOGA) Fund,

an alliance supporting managed transition away from oil and gas production.⁵⁸ Its third Nationally Determined Contribution (NDC) under the UNFCCC commits to raising the renewable share of electricity from 22% to 52% and reaching net-zero by 2060.

- ➡ In 2024, renewables met 80% of China's new or additional power demand, while India utilised electric cooking as a strategic contingency measure to bypass LPG shortages.⁵⁹

These examples demonstrate that fossil gas is increasingly uneconomic compared to the distributed and abundant nature of renewables. Transitioning to a renewables-based economy is no longer optional; it is the essential pathway to ensuring shared, sustainable prosperity.



Industrial burning and a gas flare at Indorama petrochemical company, Oyigbo, Nigeria. Photo by Taiwo Aina / Climate Visuals. Licence CC BY-NC-ND 4.0.

Why do MDBs still support fossil gas?

Despite mounting evidence that renewable energy often provides lower-cost, lower-risk and more secure energy solutions than fossil gas, many MDBs continue to finance gas infrastructure. This is less a failure of economics than a reflection of institutional incentives, political economy, and outdated assumptions. Three factors help explain this disconnect:

1. An outdated 'bridge fuel' narrative.

Many MDBs continue to treat gas as a necessary bridge between coal and renewable energy, despite rapidly declining renewable costs, advances in battery storage, and evidence that gas infrastructure risks locking countries into decades of fossil fuel dependence and stranded assets. 'Baseload' refers to the minimum, continuous level of electricity demand a grid must meet at all times, traditionally supplied by large plants, such as coal, nuclear or gas, that run at constant output around the clock because, unlike solar or wind, their generation does not

depend on weather conditions.⁶⁰ Many MDBs argue gas is uniquely suited to this role and continue to treat it as a necessary bridge to renewable energy on that basis. Grid economists, however, increasingly regard this as an outdated planning concept: As systems add cheaper variable renewables, what matters for reliability is operational flexibility, the ability to ramp generation up and down to match demand, not which plants run continuously, and no single technology or fuel type is required to keep a grid reliable.⁶¹ Renewables paired with battery storage now deliver that flexibility directly: Batteries store surplus solar and wind generation and discharge it precisely when needed, including overnight or during weather lulls, matching or beating gas plants on dispatchability in a growing number of markets, at lower and still-falling cost.⁶² Continuing to treat gas as uniquely capable of firm power ignores this shift and risks locking countries into decades of fossil fuel dependence and stranded assets.

2. Institutional and financial path dependency.

Large-scale fossil gas projects align with longstanding lending models based on sovereign loans, major infrastructure investments, and partnerships with established utilities and fossil fuel companies (recurring relationships with incumbent actors). Renewable energy systems, particularly distributed and decentralised models, often require different financing approaches, smaller transactions, regulatory reform, and greater institutional flexibility.

3. Geopolitical and commercial interests.

Fossil gas investments frequently advance broader strategic and commercial objectives, including supporting LNG export markets, creating opportunities for multinational energy companies, strengthening energy trade relationships and reinforcing existing financial and diplomatic ties. These interests can outweigh the strongest economic case for least-cost renewable alternatives.

The result: Fossil gas continues to receive public finance not because it consistently represents the most economically efficient option, but because institutional incentives, legacy investment models, outdated analysis and geopolitical interests have been slower to change than the economics of the energy transition.



Bhola-2 220MW Combined Cycle Power Plant in Bangladesh was supported by the AIIB, MIGA, and other public financiers. Photo by Petra Kjell Wright, Recourse.

MDB financing mechanisms supporting fossil gas

MDBs continue to support fossil gas through a range of financing instruments, including direct project finance, financial intermediary (FI) lending, and capital market operations, alongside technical assistance (TA), policy-based lending (PBL), guarantees, and blended finance. Instruments that de-risk private investments shift financial exposure onto governments and citizens, reinforcing fossil fuel dependence at the expense of a just and resilient energy transition.

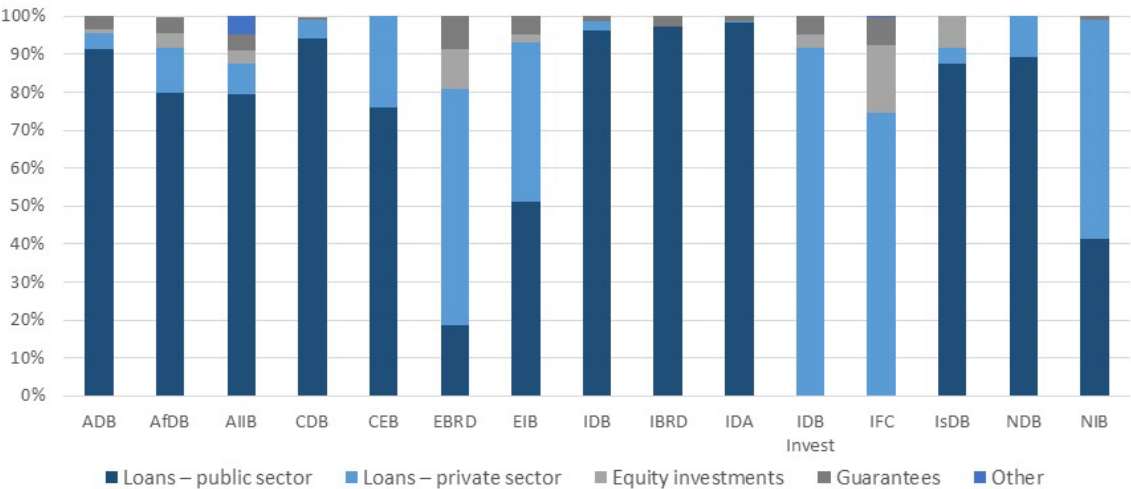
Despite their focus on climate mitigation and adaptation, the MDBs' joint framework for Paris alignment (2023)⁶³ fails to rule out financing for all fossil fuels.⁶⁴ Only extraction and electricity generation from coal and peat feature in the list of universally non-aligned activities. All other activities, including financing for oil and gas, can be considered Paris-aligned, either because they are included in the universally aligned list or they comply with a set of "specific assessment criteria".⁶⁵ In addition, the joint framework applies more rigorously to direct MDB financing, while indirect instruments face weaker climate screening, coupled with overall lower transparency and more limited accountability requirements.

A growing, though still small, financing modality used by MDBs is capital market instruments. At the AIIB, these include infrastructure debt platforms such as Bayfront Infrastructure Capital and fall outside the scope of the bank's accountability mechanism. Research by Recourse has shown how capital market projects can enable private capital mobilisation for gas and LNG infrastructure while limiting scrutiny of environmental and social harms.⁶⁶

Financial intermediary lending further obscures the scale of gas and LNG exposure. MDBs frequently channel capital through commercial banks and companies, infrastructure funds and state development banks, through equity or loans. There is a wealth of evidence showing how MDBs, including the IFC, AIIB and ADB, continue supporting fossil gas through financial intermediaries while avoiding direct scrutiny under their climate policies.⁶⁷ For example, in July 2019 the IFC committed \$2m to fund Transnet's feasibility study for the Richards Bay LNG terminal, the direct predecessor of today's Zululand Energy Terminal on which the South African fossil gas expansion depends (see case study).

MDB finance for fossil gas and LNG projects amounted to \$2,728,150,000 (nearly 3bn) in the period between 2021 and 2024.

Figure 1: Types of exposures as % of developments assets



Source: Multilateral Development Banks Comparison Report 2025, a joint MDB initiative to enhance transparency and comparability of their financial positions. Published September 2025. Available at: https://www.ndb.int/wp-content/uploads/2025/10/MDBs_Comparison_Report_2025.pdf

This pattern of intermediary financing, seen throughout the case studies in this report, creates significant transparency and accountability gaps, because sub-projects receiving financing are often not publicly disclosed.⁶⁸

Technical assistance (or advisory services) is an often-overlooked facet of MDB operations due to the relatively limited value of the overall portfolios, which also means that the investments do not require approval from the Board. But this ignores the pivotal role TA can play in shaping countries' energy strategies, paving the way for future investments. From 2016 to 2023, following the Paris Agreement, the WBG provided \$199m in technical assistance to 14 countries,⁶⁹ predominantly focusing on extraction, supply, decision-making and governance related to the gas sector. From 2016 to 2021, until its new Energy Policy came into effect, the ADB put \$10.6m towards technical assistance, most of which was designated for the gas sector alone.⁷⁰

Policy-based lending (PBL), also known as **Development policy finance** (DPF), has become increasingly important in MDB energy financing, representing approximately \$139bn in MDB commitments between 2015 and 2020, around 38%. For the World Bank alone, DPF accounted for \$81bn, or 26% of its finance between 2015 and 2021. It is a very important lending instrument with far-reaching policy influence, including in relation to energy sector reform. PBL/DPF provides direct budget support to governments in exchange for policy reforms, which can include energy market liberalisation, subsidy reform or regulatory restructuring. The reforms can be shaped to support improved energy access, utility performance and fiscal sustainability, but they have also facilitated expanded private investment in gas infrastructure through market liberalisation, tariff reform and regulatory changes.⁷¹

For example, World Bank DPF has supported energy sector reforms in Pakistan and Bangladesh comprising tariff reforms,

restructuring of state-owned utilities, and regulatory changes intended to attract private investment into the power sector, including gas-fired generation and LNG infrastructure. In South Africa, World Bank DPL of \$1bn (2023) and \$1.5bn (2025) are underpinning institutional reforms, including the Transnet restructuring, on which the fossil gas programme depends.^{72 73}

Guarantees and risk-sharing instruments are central to MDBs' mobilisation of private capital for infrastructure projects generally, including fossil fuel infrastructure. MDBs use partial risk guarantees, political risk insurance and credit guarantees to reduce investor exposure to regulatory instability, currency fluctuations and sovereign default. For example, the ADB provided a \$150m Partial Risk Guarantee to facilitate financing for the Riau Natural Gas Power Project in Indonesia (2018), a 275MW combined-cycle gas plant, transferring default and political risk from private lenders onto the ADB's public balance sheet.^{74 75}

A further example of this is Nigeria's 459MW Azura-Edo gas-fired independent power producer (IPP), financially closed a decade ago but still illustrative of the mechanism, with the scale of direct WBG exposure possible through a financing package that combined IFC senior and subordinated debt, an International Development Association (IDA) Partial Risk Guarantee and MIGA political risk insurance. At the time of financial close of this project in 2015, the WBG promoted this blended public risk-mitigation approach as a template for future infrastructure investments.⁷⁶

MIGA extends this model through political risk, trade finance and credit risk guarantees specific to fossil gas investments, protecting

investors against government actions such as debt default, regulatory changes, or contract disputes.⁷⁷ These guarantees expose the public to economic risks:

1. By de-risking projects, guarantees encourage private investment in gas infrastructure that might otherwise be considered too risky.
2. If a government defaults or introduces policies that adversely affect a guaranteed project, such as stronger climate regulations, tax reforms or labour protections, MIGA may compensate the investor and subsequently seek reimbursement from the government.

Furthermore, MIGA has enabled gas expansion through the provision of capital optimisations guarantees to financial intermediaries which support lending to fossil gas.⁷⁸ MIGA's support for gas extends also to political risk guarantees for individual projects, such as its guarantee for the Bhola-2 gas power plant in Bangladesh.⁷⁹

This can transfer the financial burden to public budgets, increasing fiscal pressure at a time when many countries are already facing significant debt and economic constraints. When energy projects are negatively affected due to cancellation, lower-than-expected demand, fuel price volatility, or changing climate regulations, the MDBs can compensate the investors while governments can be obligated to reimburse these costs to the MDBs. In the end, the public is at the losing end, because these costs will eventually eat their way into already strained public budgets.

Country case studies

This section presents five country case studies, spanning gas-importing and gas-exporting economies across Asia and Africa, to illustrate how the risks set out above play out in practice.



Each summary is drawn from a fully referenced case study accompanying this report, available on the Recourse website.

Bangladesh

Near-universal grid connection has not delivered energy security: MDB-financed gas lock-in has produced idle plants, capacity payments and energy poverty within electrification — the debt and fossil fuel trap in its clearest form.



At a glance

Population: 175.4 million • GDP per capita: \$2,960 • Electricity generation: gas 43.6%, coal 27%, imports 16.4% • Energy import dependence: 65.1% • Strait of Hormuz exposure: 71% of LNG imports, 100% of crude oil • Grid connectivity: above 95%, with deepening energy poverty within electrification

Macro context and the gas story

Bangladesh is among the clearest examples of the 'debt-fossil fuel trap': borrowing to finance fossil energy expansion creates debt that can only be serviced by further investment in the same imported fuels. As domestic gas reserves declined through the 2010s, the Japan International Cooperation Agency (JICA) financed and technically designed the Integrated Energy and Power Master Plan that codified imported LNG as the national bridge fuel to at least 2041, and the Belt and Road Initiative's 2021 coal pivot (following China's 2021 coal-financing pledge) converted over a dozen planned coal plants to gas, creating fuel demand that domestic supply could never meet.

Commercial LNG imports began in 2018 through the Moheshkhali floating terminal. Import capacity then outgrew contracted supply, and state-owned Petrobangla was pushed into volatile spot markets. When the 2026 Hormuz blockade halted 71% of LNG imports and all crude oil deliveries, the

government was forced into fuel rationing, expensive spot purchases, increased coal burn and emergency austerity.

Financing structure and public exposure

MDB commitments to Bangladeshi gas since 2020 include MIGA's \$407m guarantee for the Bhola-2 gas plant, IDA's \$300m Gas Sector Efficiency loan and \$210m plus \$350m guarantee under the 2025 Energy Sector Security Enhancement Project, ADB's \$201m smart metering loan (for the state gas distribution utility) and \$100m Reliance LNG-and-power loan, and AIIB exposure through both direct loans (Unique Meghnaghat, \$110m) and its support for Bayfront Infrastructure Capital's debt securities, which include Summit LNG and Bhola-2 in their project portfolios. Between 2017 and 2025, the ADB committed \$802.20m to fossil gas in Bangladesh and \$132.48m to renewables, a six-to-one preference for the fuel driving the crisis.

Economic risk: The Rupsha stranded asset

The Rupsha 800MW plant in Khulna (ADB loan approved 2018) condenses the capacity-payment-driven gas model's failure into one project. Built for over \$1.1bn, with a \$500m ADB loan, \$300m from the Islamic Development Bank and \$338.5m of public counterpart funding, the gas-fired plant remains largely non-operational because there is not enough gas to run it. The plant's state-owned operator, North-West Power Generation Company Limited (NWPGL), nonetheless earns capacity payments of \$10–12 per kilowatt per month, fees the public pays simply to keep an idle plant available, and policymakers are now studying conversion to other fuels, an admission that its gas-dependent design was impractical from sanction. Rupsha is not an outlier but a symbol of Bangladesh's gas-dependent power system: Capacity built ahead of fuel, costs socialised through capacity charges and tariffs, foreign reserves drained by imports, and a sovereign whose contractual obligations to foreign creditors now constrain its policy choices. The IMF's \$4.5bn programme, approved in January 2023 and expanded to \$5.5bn in May 2025, was suspended in November 2025 and replaced by a new three-year arrangement agreed with the post-election government in May 2026, which will determine whether that constraint tightens or loosens. In practice, this will shape how much fiscal room the government has to absorb idle capacity payments like Rupsha's rather than pass them through to consumers.

Access, gender and the alternative

In Bangladesh, over 95% of the population is connected to the grid, but that connection has not delivered energy security: LNG-driven generation costs have pushed tariffs up faster than incomes, producing energy poverty within electrification, where households are connected but cannot afford the electricity they need.

In contrast, the Solar Home System programme has brought affordable power to more than 20 million rural people (Infrastructure Development Company Ltd., with World Bank, GIZ, KfW and ADB support) and demonstrates that decentralised renewables can reach the households that centralised gas has failed. The People's Energy Plan 2050 by local civil society organisation CLEAN, and further analysis with Recourse, argue the same conclusion from the national data: Overcapacity, rising debt and regional inequality are products of a fossil-centred, capacity-payment-driven model, and the equitable, affordable and gender-responsive pathway runs through distributed solar and storage.

Pakistan

An import-dependent LNG model built on take-or-pay contracts has met a household-led solar revolution, and the 2026 Hormuz closure showed which of the two delivers energy security.



At a glance

Population: 245.1 million • GDP per capita: \$1,700 • Electricity mix: gas 21%, solar 19% and rising • Debt-to-GDP: 71.4% • Strait of Hormuz exposure: 99% of LNG imports • Gas-sector circular debt: PKR 3.3tn (approximately \$11–12bn)

Macro context and the gas story

Pakistan entered the 2020s billed as one of the world's great LNG growth markets and now holds a surplus it cannot use. Consumption has fallen as high import prices made gas-fired generation uncompetitive, and as a household-led rooftop solar boom, supplied largely by cheap Chinese panels, cut grid demand from below: Solar has reached roughly 19% of the electricity mix, power-sector gas use dropped to 510MMcfd against 800MMcfd of capacity, and the state has had to renegotiate contracts to resell 45 surplus LNG cargoes over 2026–27. The costs of this import-dependent LNG contracting model, however, remain locked in. Rigid take-or-pay contracts with QatarEnergy and Eni oblige fixed offtake regardless of demand, gas-sector circular debt reached PKR 3.3tn (around \$12n) by April 2026, public debt stands at 71.4% of GDP, and 2025 estimates put up to 40% of the population below the national poverty line.

The March 2026 closure of the Strait of Hormuz, through which 99% of Pakistan's LNG arrives, forced a four-day working week

and temporary school closures, threatened a quarter of electricity supply and the fertiliser production behind the spring planting season, and made the energy-security cost of import dependence a matter of daily life.

Financing structure and public exposure

The LNG build-out was anchored by multilateral money. The IFC's \$125m investment in the Engro Elengy terminal at Port Qasim in 2015 enabled the country's first large-scale LNG imports; the project was Category A for environmental risk, cost roughly 50 hectares of mangroves, and left fishing communities such as Rehri Goth with declining catches and polluted water. Around that anchor sits a wider architecture: Two consecutive \$4.5bn International Islamic Trade Finance Corporation facilities for fuel imports, ADB technical assistance for the \$10bn TAPI pipeline and Pakistan's energy-sector reform programmes, the World Bank's \$200m Natural Gas Efficiency Project, AIIB co-financing of import infrastructure, and long-term QatarEnergy contracts signed in 2016 and

2022. The IMF's \$7bn Extended Fund Facility, approved September 2024, and its Resilience and Sustainability Facility, approved May 2025, complete the frame: The Fund requires that any surge in global LNG prices be passed through in full to consumers, transferring the volatility of a commodity Pakistan does not control from the state to households and firms.

Economic risk and the import paradox

Pakistan's case shows what happens when the import-dependent gas model meets a cheaper competitor at household scale. Take-or-pay obligations mean state-owned plants run below optimal utilisation while capacity charges accrue; circular debt converts unpaid energy costs into a rolling fiscal liability; and every depreciation of the rupee raises the local cost of dollar-priced fuel. Under IMF-guided reforms, the government pushed industrial captive power users onto the grid to absorb surplus capacity, raising industrial power costs before the levy was cut by up to 60% in April 2026, and the electricity regulator's rollback of net metering is now actively discouraging the one energy source, distributed solar, that has shielded households from the worst of the 2026 crisis so far. The institutional pattern is this report's core argument in miniature: Public finance and conditionality defend the centralised fossil system, while the transition that actually delivers energy security is happening on rooftops, against policy rather than because of it.

Access, gender and the alternative

A decade of gas expansion has done little for the households furthest from the grid: Many still lack reliable electricity and clean cooking, and women carry the resulting unpaid labour, fuel insecurity and indoor air pollution.

Distributed renewables have shown a more equitable record, improving household access, cutting health burdens and supporting women's economic participation. An ADB-funded programme training women as solar technicians in Punjab is one concrete example, though the picture is uneven: Household solarisation has also been reported to reinforce existing gaps where technical decisions default to men, underlining that distributed access alone does not guarantee equitable control over the technology. The solar revolution now under way is the largest organic energy transition in Pakistan's history, driven by affordability rather than policy. What it lacks is exactly what the LNG chain received: Patient, concessional, de-risking public finance for storage, grid integration and fair net billing.

South Africa

An import-oriented gas programme with no export rationale, unbankable on market terms, pursued at a 40% cost premium over renewables in a country where energy poverty already reaches 45% of households.



At a glance

Population: 63.1 million • GDP per capita: \$6,253 • Electricity mix: coal 82%; gas negligible, around 3% of total energy • Debt-to-GDP: 78.6% • Energy poverty: approximately 45% of households • Planned gas fleet: 6,000MW by 2030, 16,000MW by 2039 (IRP)

Macro context and the gas plan

South Africa's case is unique in this report: A gas programme that is import-oriented, currently marginal, and being promoted just as the economics have failed. Gas supplies around 3% of total energy and a negligible share of electricity, almost all of it imported from Mozambique, yet the government's 2019 Integrated Resource Plan (IRP) allocates 6,000MW of gas-to-power by 2030 and 16,000MW by 2039, dependent on LNG import infrastructure that does not exist. The plan rests on a 2012 cost picture. Modelling commissioned separately from the IRP process shows gas moved from 50% cheaper than renewables in 2012 to almost three times more expensive by 2021, and that forcing large-scale gas into the system would raise electricity costs by at least 40% against a renewables-plus-peaking pathway, in a country whose debt stands at 78.6% of GDP and where debt service already exceeds spending on health.

Financing structure and public exposure

The gas programme's origins carry MDB fingerprints: In July 2019, the IFC committed \$2m to fund Transnet's feasibility study for the Richards Bay LNG terminal, the direct predecessor of today's Zululand Energy Terminal, and World Bank development policy loans of \$1bn (2023) and \$1.5bn (2025) are underpinning institutional reforms, including the Transnet restructuring, on which the gas programme depends. The exposure now runs through every layer of the state: Transnet holds the 25-year terminal concession; the sovereign backstops 20-year gas power purchase agreements through to Implementation Agreements; fossil subsidies have tripled to ZAR R118bn (approx \$7bn), and the record of the vehicles that came before shows what happens when dollar-linked gas commitments meet South African affordability: The three Karpowership projects at Richards Bay, Saldanha Bay and Coega, procured under the 2021 emergency risk-mitigation programme, were abandoned without delivering power amid refused environmental authorisations,

litigation and unaffordable dollar-linked charter costs. No element of this combined exposure has ever been aggregated, published or stress-tested against rand depreciation, LNG price volatility or renewable cost deflation.

Economic risk: Unbankable by design

The gas programme's central economic problem is that no one will finance it on market terms. The Eskom 3,000MW Richards Bay plant was halted by a National Treasury ban on further Eskom debt and a Supreme Court annulment of its environmental permit; the gas IPP bid window has been extended repeatedly because bidders will not commit while the fuel chain is unresolved; and the Zululand terminal remains pre-Final Investment Decision with no anchor offtake.

South Africa also lacks the export rationale that other African gas economies invoke: Its gas programme bears all the capital costs, currency risks and stranded-asset exposure of large-scale gas with no hard-currency revenue stream, for a domestic industrial gas market a fortieth the size of South Korea's. Where private capital declines, public capital is being volunteered: The Public Investment Corporation, which manages approximately R2.7tn (around \$146bn) of predominantly public-sector pension assets, has a reported R100bn (approx \$6bn) earmark for gas midstream and downstream investment, placing public-sector pension savings, managed on behalf of the Government Employees Pension Fund, behind infrastructure the market has judged unbankable, transferring energy-transition risk (more precisely, stranded-asset risk) onto retirement savings.

Access, gender and the alternative

Around 45% of South African households already experience energy poverty, driven by affordability in a system where Eskom tariffs have risen roughly 600% in real terms since 2007 and where the cost-recovery model passes the utility's full costs to consumers, regardless of ability to pay. A gas-driven increase of at least 40% would fall hardest on female-headed households and on the captive, predominantly poor customer base left behind as wealthier consumers exit to rooftop solar.

The genuine development argument on the gas side, and the roughly 70,000 workers in existing gas-dependent industries whose livelihoods and up to R300–500bn (approximately \$16–27bn) of annual output are at risk if no replacement gas supply is found, is an argument for managing the decline of Mozambican pipeline supply, not for new LNG-to-power. A planned redeployment into renewable manufacturing, transmission build-out, storage and industrial electrification, financed through the JET-P (South Africa's Just Energy Transition Partnership)'s skilling and localisation instruments, protects those livelihoods better than tying them to a declining, import-dependent fuel.

Namibia

A pre lock-in case: MDBs are absent from the Orange Basin oil and gas push and present in renewables. Keeping it that way is the policy task.



At a glance

Population: 2.98 million • GDP per capita: \$4,661 • Electricity mix: hydro 61%, solar 35%; no gas
• Electricity import dependence: 60% • Debt-to-GDP: 70.5% • Income inequality: Gini 59.1, second highest in the world

Macro context and the hydrocarbon push

Namibia is this report's frontier case: A country with no hydrocarbon production in its history, now on the edge of developing the offshore Orange Basin discoveries that TotalEnergies, QatarEnergy, Galp, Shell and BW Energy have drilled since 2022. Proven gas reserves are put at 2.2 trillion cubic feet, with recent Venus oil field estimates of 4.8 trillion cubic feet of associated fossil gas, and development is projected to double long-term GDP. The macro backdrop is fragile: Public debt at 70.5% of GDP, declining South Africa Customs Union (SACU) revenues, a currency pegged to the rand, the world's second-highest income inequality, and unemployment plus potential labour force of 54.8%. Everything in the Orange Basin is pre-production and most of it pre-final investment decision, with the Venus Final Investment Decision expected in late 2026.

Financing structure: The MDB absence

The defining financing fact is an absence: No WBG, AfDB or other traditional MDB financing has been confirmed for any Orange Basin upstream oil or gas development, the segment where MDB policy exclusions against fossil fuel finance are least ambiguous. That exclusion is policy, not permanent fact, and carries risk: If the World Bank Group were to reverse its ban on upstream oil and gas financing, this absence could not be assumed to hold. The Africa Energy Bank, capitalised at \$5bn by African Petroleum Producers' Member States and Afreximbank and launching from Abuja in 2026 with a \$15bn target by 2030, was created to fill the void left by Western lenders' retreat from African hydrocarbons, and industry analysis identifies Namibian appraisal drilling as a likely early use of its capital.

Meanwhile the MDBs are present on the other side of the ledger: The Development Bank of South Africa has provided \$5.4m and the AfDB \$10m in preparation funding for the Hyphen green hydrogen project, in which the state holds 24%. Development finance is backing Namibian renewables while declining Namibian hydrocarbons, as the Hyphen example above shows, and the sovereign's task is to keep it that way: Pipelines, storage or gas-to-power would very likely require the sovereign guarantees and state-backed offtake that this report documents as the standard risk-transfer channel elsewhere.

Economic risk and value retention

The headline GDP projections obscure the question of who gets the money. Under the petroleum fiscal regime, operators recover exploration and development costs before most taxes and royalties fall due, and NAMCOR's carried interest means the state's share of costs is repaid out of its share of production. Revenues to Namibia are therefore heavily back-loaded, while the risks of price volatility, cost overruns and early decommissioning stay with the state, and the standard resource-curse dynamics of currency appreciation, wage inflation and capital reallocation threaten the mining, tourism, agriculture and fisheries sectors on which most Namibians actually depend.

The environmental exposure is equally structural: The operators' own impact assessment concludes that an oil spill could spread across the Namib Flyway, a designated Ecologically or Biologically Significant Marine Area, in one of the world's most productive coastal ecosystems.

Access and the renewable alternative

The export orientation settles the domestic-access question. In practice, because Orange Basin gas is export-oriented by design, it will do little for domestic energy access: Namibia imports 60% of its electricity, has no refinery, no gas network and no gas-fired fleet, and every domestic use claimed for Orange Basin gas depends on infrastructure that is neither designed nor financed. The only gas-to-power concept, Kudu, has failed to reach investment decisions for five decades. NamPower, by contrast, is already procuring domestic renewables at scale and in local currency: A NAD \$16bn (approx \$1bn) programme spanning the Sores-Gaib solar plant, the Diaz wind project, biomass, batteries and a 120MW solar tender with mandatory Namibian ownership, cutting import dependence within two to three years, without sovereign guarantees. No MDB financing has been confirmed for this programme either. The comparison is not between hydrocarbon revenue and nothing, but between a back-loaded, volatile, externally controlled revenue stream and a domestic sustainable renewable energy build-out that reduces the import bill immediately and compounds over decades.

Nigeria

The world's largest electricity access deficit sits alongside an LNG export expansion into a softening market and a first-of-its-kind African commitment to plan beyond oil and gas. The contradictions of that position are not sustainable, and the direction of resolution is the case that follows.



At a glance

Population: 234.4 million (2025) • GDP per capita: \$1,879 (2024) • Electricity mix: 74% natural gas • Debt-to-GDP: 32.3% (2026, IMF projection) • Oil & gas share of government revenue: over 50%; over 80% of foreign-exchange earnings • Electricity access deficit: 86 million people without power, largest globally

Macro context and the gas expansion

Africa's fourth-largest economy and most populous state remains structurally bound to a single sector: Oil and fossil gas generate over half of federal-government revenue and more than 80% of foreign-exchange earnings. The Tinubu administration's May 2023 removal of the petrol subsidy and unification of the foreign-exchange windows were welcomed by the IMF and World Bank as market-based corrections, but they were driven by fiscal-consolidation imperatives, not by any coherent energy-transition strategy: Petrol rose from around N185 (about \$0.40) to over N1,000 per litre; the naira depreciated from around N460/\$ to N1,500–1,700/\$ over 2023–24; inflation peaked at 31%; and the World Bank estimated 47% of Nigerians below the national poverty line by end-2024.

Public debt reached N159.28tn (\$104bn) at end-2025, with \$51.86bn external, and debt servicing alone is forecast at \$11.6bn in 2026, a 130% year-on-year rise that crowds out spending on health,

education and the energy transition. Against this fiscal picture the country is pursuing the "Decade of Gas 2021–2030", targeting 12Bcf/d (billion cubic feet per day) of production by 2030 built on the largest gas reserves in Africa.

Financing structure and public exposure

The gas build-out has two anchors. NLNG Train 7 at Bonny Island adds 8MTPA of liquefaction capacity for a \$5bn build cost, reached 92% completion in May 2026, and was financed in 2020 through a \$3bn syndicated loan involving three export credit agencies (Korea Eximbank, K-SURE and Italy's SACE), Afreximbank, the Africa Finance Corporation, 16 international commercial banks and 10 Nigerian banks. No MDB is directly party to this loan, and none of the counterparties that are, the ECAs and commercial banks, is bound by the Paris-alignment frameworks MDBs apply to their own direct lending. Direct WBG exposure runs through the 459MW Azura-Edo gas-fired IPP, whose 2015 close

used IFC senior and subordinated debt, an IDA Partial Risk Guarantee and MIGA political-risk insurance in a package the WBG described at the time as a replicable template.

The AfDB's \$500m Economic Governance and Energy Transition Support Programme (phase two, approved November 2025, covering fiscal years 2024–25), meanwhile, ties concessional finance to electricity-sector tariff reform in a power system that is 74% gas-fired and dollar-indexed, transmitting FX shocks directly to consumers. Substantial Nigerian public resources sit behind the whole structure: NNPC holds 49% of NLNG; pioneer-status tax holidays represent significant forgone revenue; and the post-2023 unified FX window enables dollar liquidity on terms not available to most Nigerian firms.

Economic risk and the export–domestic paradox

In 2025 Nigeria exported 35% of its gas production and flared roughly 229 Bcf, a 12% rise on the previous year and the second-largest annual increase recorded globally, while domestic grid supply remains severely constrained by transmission losses, distribution-company under-collection and unreliable feedgas. The AKK pipeline, due to deliver first gas to Abuja in July 2026, is presented as the domestic answer, but its power off-take will inherit the same dollar-indexed cost structure that is already driving electricity subsidies to N1.94tn (approx \$1.42bn) in 2024, a 220% rise on 2023. Train 7 is being commissioned into what pre-Hormuz crisis forecasts described as a structurally soft medium-term market: Around 93 MTPA of new global LNG capacity is entering service in 2025–26, and Bernstein's early-2026 forecast projected spot prices falling from about \$12/MMBtu in 2025 to \$9/MMBtu over 2026–28.

The 2026 West Asia crisis has temporarily reversed that trajectory (Asian spot briefly hit \$25.40/MMBtu in March 2026), but the underlying capacity additions and continued

climate constraints on gas demand remain. The stranded-asset thesis is straightforward: Within ten to fifteen years, Train 7 is at material risk of failing to recover its capital costs at remunerative utilisation, with the loss falling on the 49% Nigerian public equity stake, on the lenders, and on the Niger Delta communities that have already borne much of the project's environmental cost.

Access, gender and the renewable alternative

In 2025, more than 86 million Nigerians lacked access to electricity, the largest absolute deficit in the world for three consecutive years. The burden falls hardest on women: 74% of households rely on traditional biomass for cooking, only 5.9% of female-headed households use modern energy sources against 19.9% of male-headed households, and rural women and girls spend three to five hours a day collecting firewood. Continued fiscal commitment to a dollar-indexed, gas-fired power sector is therefore not gender-neutral.

The alternative is no longer hypothetical. Nigeria was the second-largest African importer of Chinese solar panels in the year to June 2025 (1,721 MW) and domestic solar manufacturing has risen from 120MW two years ago to 300MW today with a 3.7GW pipeline, while state-level Integrated Resource Plans under the Electricity Act 2023 could anchor a distributed, co-located green industrial strategy. In September 2025 Nigeria became the fifth country, and the first major African oil and gas producer, to establish a programme under the Beyond Oil and Gas (BOGA) Fund, and its third NDC commits to raising the renewable share of electricity from 22% to 52% and reaching net-zero by 2060. The IFC's \$80m naira-denominated Sun King facility with Stanbic IBTC, closed in May 2025, shows what coherent MDB action can look like at scale, though a single facility of this size does not yet constitute action at the scale Nigeria's access deficit requires.



Protests against false solutions and LNG expansion in Bangladesh, September 2024. Photo by Coastal Livelihood and Environmental Action Network (CLEAN).

The structural failure of the 'bridge fuel' narrative

The strategic narrative positioning fossil gas as a 'bridge fuel' has effectively collapsed under the weight of the 2026 West Asia crisis. Recent disruptions in the Strait of Hormuz, which neutralised nearly 20% of global LNG supply, have exposed the extreme fragility of gas-dependent economies. With spot prices surging by 55% in Asia and 34% in Europe in a single month, the purported stability of gas has been revealed as a macroeconomic liability. For the Global South, this volatility is not merely a budgetary hurdle but a systemic threat to fiscal solvency, as the collapsing LCOE for renewables renders new gas infrastructure an expensive gamble.

This report identifies a systemic fossil fuel debt trap that serves to transfer long-term private risks onto public balance sheets. In nations like Pakistan, this dependence has manifested as a 'circular debt' crisis totalling PKR 2.6tn (around \$9.4bn), fuelled by high import costs and the inability to recover tariffs. MDBs have exacerbated this crisis by employing narrow

financial modelling and 'emission coefficient' metrics that ignore methane leakage and lifecycle volatility. By prioritising short-term baseload metrics, MDBs effectively socialise the risks of gas expansion while saddling developing nations with dollar-denominated liabilities that deplete foreign exchange reserves and exacerbate current account deficits.

The shift to a renewables-based economy is no longer a choice dictated by climate diplomacy; it is a financial necessity. With solar-plus-storage now delivering firm power at \$54–82/MWh, nearly half the \$102/MWh required for new gas turbines, decoupling from global commodity markets is the only viable path to protecting vulnerable populations from 50% tariff hikes and the resulting time poverty imposed particularly on women. The transition from identifying these systemic vulnerabilities to implementing corrective action requires a decisive shift in multilateral development finance.

Policy recommendations

To dismantle the structural dependencies created by current fossil gas-financing mechanisms, we suggest a strategic realignment of MDB approaches to energy policy. These recommendations are designed to shift national balance sheets away from costly, high-risk, extractive fossil fuel-based models toward stable, sustainable renewable energy systems. We call on MDBs to:

- 1. Stop all forms of finance, direct and indirect, and policy support for fossil gas projects.** Energy investment decisions should be based on comprehensive least-cost assessments that account for methane emissions, fuel price volatility, and long-term fiscal risk, not on emissions intensity alone. With 91% of new renewable capacity now cheaper than fossil fuel alternatives, public finance should prioritise renewables as the most economically efficient option.
- 2. End the use of sovereign guarantees (including MIGA and other IFI guarantees) and other public financial backstops for new fossil gas projects.** All investments should be required to demonstrate commercial viability without transferring financial risk to the public. Eliminating contingent liabilities will improve fiscal transparency, reduce exposure to hidden debt, and prevent governments from bearing the costs of projects that become uneconomic during fuel price or currency shocks.
- 3. Sustain or introduce bans on investments for upstream oil and gas development, covering direct financing, financial intermediary exposure, guarantees and advisory support.** This should include support for offshore hydrocarbon development or associated midstream infrastructure.
- 4. Halt financing for export-oriented LNG infrastructure, including indirect exposure through financial intermediaries.** These projects carry acute stranded-asset risk when sanctioned into a structurally softening global market, transmit dollar-indexed financial exposure back onto the sovereign even where the project is nominally export revenue-generating, and frequently impose environmental and social costs on host communities that the underlying project economics never priced in.
- 5. Establish mandatory transparency and accountability requirements for all financial intermediary (FI) lending.** MDBs should require full public disclosure of all FI subprojects, including project name, sector, and location, to ensure that public finance is aligned with climate commitments and does not indirectly support new fossil gas development. That screening should be strengthened to close the transition-fuel, scope-3 and financial-intermediary loopholes that currently permit money to flow indirectly to gas through MDB balance sheets.
- 6. End the use of Technical Assistance to promote or prepare new fossil gas projects.** TA should be redirected towards renewable energy deployment, grid modernisation, storage, and power system planning that supports affordable, resilient, and low-carbon energy systems.

- 7. Support the restructuring of take-or-pay contracts and capacity payment arrangements** that lock countries into paying for unused gas capacity. Future energy investments should be based on flexible procurement arrangements that respond to changing demand and technology costs.
- 8. Prioritise financing for sustainable renewable energy integrated with battery storage and modern grid infrastructure.** Public investment should accelerate firm renewable energy systems (paired with storage and grid flexibility to deliver power on demand) that deliver reliable power while reducing exposure to fuel price volatility, import dependence and geopolitical risks associated with fossil gas.
- 9. Subject all their energy policies and reforms to mandatory gender impact assessments** to ensure that tariff reforms, subsidy changes, and investment decisions do not negatively impact gender equality, such as increased unpaid care work or deepened energy poverty. Institutionalise gender-responsive energy planning and budgeting across all energy sector operations.
- 10. Audit, restructure and where justified cancel odious energy-sector debt.** MDBs, bilateral lenders and the IMF should support an independent, transparent public audit of energy liabilities to identify debt attached to failed, harmful or stranded fossil fuel assets. Liabilities associated with LNG expansion, excess capacity payments and underutilised infrastructure should be assessed for restructuring, cancellation or other relief where they undermine public welfare, energy security and climate resilience. International public finance should create fiscal space for the transition, not deepen the fossil fuel debt trap it helped to build.

Implementing these recommendations is not simply a policy choice, it is an economic, fiscal, and strategic imperative. The evidence presented throughout this report demonstrates that new fossil gas is no longer the least-cost pathway to energy access, security, or development. MDBs have a critical opportunity to realign public finance with least-cost, resilient, sustainable and equitable energy systems, strengthening the energy sovereignty of the countries they serve, reduce fiscal risk, and accelerate sustainable development. By prioritising renewable energy, enhancing transparency and accountability, and ending support for new fossil gas infrastructure, MDBs can help countries build energy systems that contribute directly to the Sustainable Development Goals, in particular SDG7 (affordable and clean energy) and SDG5 (gender equality), that are more affordable, more secure, and less vulnerable to geopolitical shocks and fuel price volatility.

The economics are now unequivocal: Continuing to finance fossil gas is not a prudent development strategy, it is a costly misallocation of scarce public resources. In today's energy landscape, gas is bad economics.

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Kraijenhoffstraat 137A 1018 RG
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